

AGENDA

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

**SAN BERNARDINO CITY COUNCIL CHAMBERS
300 NORTH D STREET, FIRST FLOOR, SAN BERNARDINO**

REGULAR MEETING OF MARCH 16, 2017

9:00 A.M. – CALL TO ORDER – FLAG SALUTE

ANNOUNCEMENT: Anyone present at the hearing who is involved with any of the changes of organization to be considered and who has made a contribution of more than \$250 in the past twelve (12) months to any member of the Commission will be asked to state for the record the Commission member to whom the contribution has been made and the matter of consideration with which they are involved.

CONSENT ITEMS:

The following consent items are expected to be routine and non-controversial and will be acted upon by the Commission at one time without discussion, unless a request has been received prior to the hearing to discuss the matter.

1. Approval of Minutes for Regular Meeting of February 17, 2016
2. Approval of Executive Officer's Expense Report
3. Ratify Payments as Reconciled for Months of February 2016 and Note Cash Receipts

DISCUSSION ITEMS:

4. Consent Items Deferred for Discussion
5. Status Report on LAFCO 3176 -- Special Study for Yermo, Daggett and Newberry Community Services Districts (***Continued from February 17, 2016 Hearing***)
6. Status Report on LAFCO 3189 -- Special Study for Morongo Valley Community Services District (***Continued from February 17, 2016 Hearing***)
7. Status Report on Rim of the World Park and Recreation District (***Continued from February 17, 2016 Hearing***)
8. Update on Status of LAFCO 3157A – Service Review for Open Space and Habitat Conservation within the Valley Region and Request for Continuance to September 21, 2016 Hearing
9. Review and Consideration of Policy Updates Related to Approval of SB 239 – Contracts for the Provisions of Fire Protection by Contract

10. Review and Consideration of Policy Updates Related to Approval of AB 402 – Special Provisions for Review of Out of Agency Contracts Outside a Sphere of Influence Within San Bernardino County

INFORMATION ITEMS:

11. Legislative Update Report
12. Executive Officer's Report
13. Commissioner Comments
(This is an opportunity for Commissioners to comment on issues not listed on the agenda, provided that the subject matter is within the jurisdiction of the Commission and that no action may be taken on off-agenda items unless authorized by law.)
14. Comments from the Public
(By Commission policy, the public comment period is limited to five minutes per person for comments related to items under the jurisdiction of LAFCO.)

The Commission may adjourn for lunch from 12:00 to 1:30 p.m. The Commission may take action on any item listed in this Agenda whether or not it is listed For Action. In its deliberations, the Commission may make appropriate changes incidental to the above-listed proposals.

Materials related to an item on this Agenda submitted to the Commission or prepared after distribution of the agenda packet will be available for public inspection in the LAFCO office at 215 N. D St., Suite 204, San Bernardino, during normal business hours, on the LAFCO website at www.sbclafco.org, and at the hearing.

Current law and Commission policy require the publishing of staff reports prior to the public hearing. These reports contain technical findings, comments, and recommendations of staff. The staff recommendation may be accepted or rejected by the Commission after its own analysis and consideration of public testimony.

IF YOU CHALLENGE ANY DECISION REGARDING ANY OF THE ABOVE PROPOSALS IN COURT, YOU MAY BE LIMITED TO RAISING ONLY THOSE ISSUES YOU OR SOMEONE ELSE RAISED DURING THE PUBLIC TESTIMONY PERIOD REGARDING THAT PROPOSAL OR IN WRITTEN CORRESPONDENCE DELIVERED TO THE LOCAL AGENCY INFORMATION COMMISSION AT, OR PRIOR TO, THE PUBLIC HEARING.

The Political Reform Act requires the disclosure of expenditures for political purposes related to a change of organization or reorganization proposal which has been submitted to the Commission, and contributions in support of or in opposition to such measures, shall be disclosed and reported to the same extent and subject to the same requirements as provided for local initiative measures presented to the electorate (Government Code Section 56700.1). Questions regarding this should be directed to the Fair Political Practices Commission at www.fppc.ca.gov or at 1-866-ASK-FPPC (1-866-275-3772).

A person with a disability may contact the LAFCO office at (909) 388-0480 at least 72-hours before the scheduled meeting to request receipt of an agenda in an alternative format or to request disability-related accommodations, including auxiliary aids or services, in order to participate in the public meeting. Later requests will be accommodated to the extent feasible.

**DRAFT - ACTION MINUTES OF THE - DRAFT
LOCAL AGENCY FORMATION COMMISSION
HEARING OF FEBRUARY 17, 2016**

REGULAR MEETING

9:00 A.M.

FEBRUARY 17, 2016

PRESENT:

COMMISSIONERS:	Jim Bagley	James Ramos
	Kimberly Cox, Vice-Chair	Acquanetta Warren, Alternate
	James Curatalo, Chair	Diane Williams
	Steve Farrell, Alternate	
	Robert Lovingood	

STAFF:

Kathleen Rollings-McDonald, Executive Officer
Michael Riddell, LAFCO Legal Counsel
Samuel Martinez, Assistant Executive Officer
Michael Tuerpe, Project Manager
Jeffery Lum, LAFCO Analyst
Rebecca Lowery, Clerk to the Commission
Bob Aldrich, LAFCO Consultant

ABSENT:

COMMISSIONERS:	Larry McCallon	Sunil Sethi, Alternate
	Janice Rutherford, Alternate	

LEGAL COUNSEL: **Clark Alsop**

9:05 A.M. – CALL TO ORDER – FLAG SALUTE

Chairman Curatalo calls the regular session of the Local Agency Formation Commission to order and leads the flag salute.

Chairman Curatalo requests those present who are involved with any of the changes of organization to be considered today by the Commission, and have made a contribution of more than \$250 within the past twelve months to any member of the Commission, to come forward and state for the record their name, the member to whom the contribution has been made, and the matter of consideration with which they are involved.

(It is noted that Commissioner Farrell arrives at 9:07)

CONSENT ITEMS – APPROVE STAFF RECOMMENDATION:

The following consent items are expected to be routine and non-controversial and will be acted upon by the Commission at one time without discussion, unless a request has been received prior to the hearing to discuss the matter.

1. Approval of Minutes for Regular Meeting of January 27, 2016
2. Approval of Executive Officer's Expense Report
3. Ratify Payments as Reconciled for Months of January 2016 and Note Cash Receipts

LAFCO considered the items listed under its consent calendar, which includes a Visa Justification, the Executive Officer's expense report and ratification of payments as reconciled for the month of January. Copies of each report are on file in the LAFCO office and are made part of the record by their reference herein.

Chairman Curatalo calls for requests for deferral from Commissioners or staff; there are none.

Commissioners Lovingood and Ramos state abstention to item 1.

Commissioner Cox moves approval of the consent calendar, second by Commissioner Bagley. There being no opposition, the motion passes unanimously with the following roll call vote: Ayes: Bagley, Cox, Curatalo, Lovingood, Ramos, Williams. Noes: None. Abstain: On Item 1 – Lovingood and Ramos. Absent: McCallon.

PUBLIC HEARING ITEMS:

ITEM 4. CONSENT ITEMS DEFERRED FOR DISCUSSION

No items deferred for discussion.

(It is noted that Commissioner Warren arrives at 9:10.)

ITEM 5. CONSIDERATION OF: (1) CEQA STATUTORY EXEMPTION FOR LAFCO 3193; AND (2) LAFCO 3193 – SPHERE OF INFLUENCE AMENDMENT (EXPANSION) FOR THE PHELAN PINON HILLS COMMUNITY SERVICES DISTRICT)

Chairman Curatalo opens the public hearing. Assistant Executive Officer Samuel Martinez presents the staff report for LAFCO 3193, a complete copy of which is on file in the LAFCO office and is made a part of the report by its reference here. The item has been advertised in *The Daily Press* newspaper, a newspaper of general circulation, through a 1/8th page legal ad and individual notice as required by statute.

Mr. Martinez reviews the background information for the Phelan Pinon Hills Community Service District Sphere Expansion and states that the District initiated an application to expand its sphere of influence for the purpose of including District-owned properties into its sphere of influence, which is a requirement for annexation. He states that the proposed expansion not only includes the District-owned properties that are proposed for annexation, but also encompasses a much larger area that addresses a more comprehensive planning boundary for the District.

Mr. Martinez states that staff had previously identified issues with regard to the sphere expansion into the El Mirage Community, a LAFCO defined community located north of the communities of Phelan and Pinon Hills. He states that staff is proposing two possible alternatives. The first option would be to expand the sphere to include only the properties that the District owns which are proposed for annexation-. He states that it is staff's opinion that this option would be considered short sighted since the District would be obligated to serve the properties once they are annexed, and if the District needed to provide water service to these properties, it would have to run water mains along either Tanner and/or Sheep Creek Roads to access its properties. He states that it is staff's opinion that a more comprehensive approach to the expansion of the sphere of influence would make sense from a planning perspective.

Mr. Martinez states that the second option would be to expand the sphere of influence to include the entirety of the community of El Mirage which would be a logical option that could address the service needs of the entire community. Those services needs in general are identified as water quality issues within the El Mirage community. Since there is no public entity that provides retail water service to the area, the inclusion of the entire community into the District's sphere of influence would allow the District to provide long range planning for the entire community,. However, it is the staff's opinion that this would be impractical since the District is not prepared to serve the entirety of the El Mirage community. Mr. Martinez states that another concern related to the potential inclusion of the entire community is the loss of community identity.

Mr. Martinez states that both alternatives would allow for expansion of the sphere of influence for the District in order to move forward with its companion reorganization proposal; however, staff believes that the sphere of influence expansion as originally proposed by the District provides for a logical sphere boundary that would allow the District to plan to serve the area between Tanner and Sheep Creek Roads, north and south of El Mirage Road and should be supported.

Mr. Martinez states that it is staff's position that the sphere of influence amendment does not require a service review to be conducted pursuant to Government Code Section 56430 since LAFCO 3193 is a sphere of influence amendment pursuant to Government Code Section 56428. In addition, Commission's policy only would require a service review for an amendment to a retail water district's sphere of influence under two scenarios which do not apply in this case; therefore, staff is recommending that the Commission determine that LAFCO 3193 does not require a service review.

Mr. Martinez states that the sphere of influence factors of consideration are outlined in the staff report, made a part of the record by their reference here, and that he would be happy to answer any questions the Commission may have on these factors. He states that for functions and services of the District, staff is recommending that the Commission affirm the service description for the District as currently identified in the *LAFCO Policy and Procedure Manual*.

Mr. Martinez states that for environmental consideration, the Commission's Environmental Consultant recommends that the review of LAFCO 3193 is statutorily exempt from CEQA based on the finding that the sphere of influence amendment does not appear to have any potential to alter the existing physical environment in any manner different from the existing environmental circumstance.

Mr. Martinez states that the notice of the Commission's consideration of this issue has been advertised as required by State law through publication in *The Daily Press*, a newspaper of general circulation and that individual notice was provided to affected and interested agencies, County departments and those individuals and agencies requesting mailed notice. He states that staff also provided individual notices to landowners and registered voters within and surrounding the expansion area, and that to date staff has not received written comments in support or opposition regarding the consideration of this proposal. Mr. Martinez states that the map and legal description of the sphere of influence has been certified by the County Surveyor's office.

Mr. Martinez states that LAFCO 3193 represents a reasonable expansion of the sphere of influence for the Phelan Pinon Hills CSD for future planning purposes and that the proposal has been submitted in order to move forward with the reorganization proposal submitted by the District to annex the properties it owns that are currently outside of its boundaries. Therefore, staff recommends approval of LAFCO 3193 and reviews the recommendations as outlined in the staff report.

Chairman Curatalo asks for comments and questions from the Commission for staff. There are none.

Chairman Curatalo opens the public comment session

Bobbie Farquar, Resident of El Mirage and President of the El Mirage Chamber of Commerce, speaks in opposition of the sphere of influence expansion and its companion annexation proposal. She states that annexation will divide the community and that she is representing members of the community who are opposed to the sphere of influence amendment and annexation. She states that they have a small park district in that area and the CSD is asking to be exempt and not pay the tax. She states they do not understand what the issues are regarding the paying of the tax. She states that the loss of funds will be bad for the park.

Commissioner Bagley thanks Ms. Farquar for her comments. He states that he is not familiar with the El Mirage area and explains that the areas that are to be annexed into the District are parcels that the District currently owns. He asks if the people in that area have wells or if they are receiving their water from a municipal water service. Ms. Farquar states that most of the community residents have wells. Commissioner Bagley states that he understands the need of individual identification of a community and explains that the sphere of influence is used as a planning tool for the future. Ms. Farquar states that the sphere amendment and the annexation will divide the community and is also worried about the loss of funding that supports the park.

Commissioner Lovingood thanks Ms. Farquar and states that representatives from his office have been involved with the El Mirage community and that a change needs to be made in order to address the needs that affect the whole community. George Calloway, resident of El Mirage and Chair of the El Mirage Council, speaks in opposition to the proposal and states that the proposal has not received the support of the community and that approval of the proposed sphere of influence amendment will divide the community.

Chairman Curatalo asks for any additional comments from the public or the applicant. There are none. Chairman Curatalo closes the public hearing.

Mr. Martinez reviews the recommendations as listed in the staff report.

Commissioner Ramos asks for a review of the El Mirage area on the overhead map.

Executive Officer Kathleen Rollings-McDonald states that the discussion regarding the El Mirage community has been an on-going discussion and that staff's recommendation for sphere expansion is the most reasonable for the use of a planning tool for the future.

Commissioner Cox states that the District would be a good water provider for the area since they have good water resources and that the District has a role to plan in the future of the area.

Commissioner Bagley asks what powers can be provided by CSA 70 to which Ms.

McDonald responds that CSA 70 has the full range of services including water authority but does not provide fire service. She notes that fire service is provided by County Fire, however, it does have a tax through FP-3. She states that the park and recreation has a tax under CSA 70 of \$9 per parcel.

Commissioner Farrell asks how many parcels are in the sphere expansion and what the zoning is; Mr. Martinez states that there are around 80 parcels inside the expansion area and that the zoning includes 480 acres designated AG, 838 acres designated RL, 640 acres designated RL-5 and 120 acres designated IR.

Commissioner Cox moves approval of staff recommendation for LAFCO 3193, second by Commissioner Lovingood. There being no opposition, the motion passes unanimously with the following roll call vote: Ayes: Bagley, Cox, Curatalo, Lovingood, Ramos, Warren Williams. Noes: None. Abstain: None. Absent: McCallon (Ms. Warren voting in his stead).

ITEM 6. CONSIDERATION OF: (1) CEQA STATUTORY EXEMPTION FOR LAFCO 3194; AND (2) LAFCO 3194 – REORGANIZATION TO INCLUDE ANNEXATIONS TO THE PHELAN PINON HILLS COMMUNITY SERVICES DISTRICT AND DETACHMENT FROM COUNTY SERVICE AREA 70 ZONE P-6

Chairman Curatalo opens the public hearing. Assistant Executive Officer Samuel Martinez presents the staff report for LAFCO 3194, a complete copy of which is on file in the LAFCO office and is made apart of the report by its reference here. The item has been advertised in *The Daily Press* newspaper, a newspaper of general circulation, through a 1/8th page legal and provided individual notice as required by statute.

Mr. Martinez states that the proposal was initiated by the Phelan Pinon Hills CSD to annex three separate areas into the District which encompass District owned lands. He states that the proposal also includes the detachment from the CSA 70 Zone P-6, which is an entity that provides park and recreation services for the unincorporated El Mirage community. He states that the District would like to declare these properties exempt from property taxes but must first include the areas within its boundaries to do so. Mr. Martinez states that the staff report provides the information related to the four major areas of consideration required for a jurisdictional change – boundaries, land uses, service issues and the effects on other local governments, and environmental considerations.

Mr. Martinez reviews the three areas proposed for annexation and states that for boundary considerations, the three areas being annexed are quarter sections of land, which are easily identifiable boundaries for service delivery and that the annexation to a community service district does not require contiguity, therefore the proposal presents no boundary concerns. He states that for land use consideration, the County's land use designation for all three areas is Agricultural and no change in land use is anticipated for the reorganization area. He states that for service issue consideration, the Plan for Service includes a Fiscal Impact Analysis indicating that the project will have a positive financial effect in the form of savings for the District. In addition the three areas are generally vacant agricultural lands with the exception of the existing solar facility of the CSD; therefore, the service needs are expected to be minimal and as required by Commission policy and State law, the Plan for Service shows that the extension of its service will maintain and/or exceed current service levels provided through the County or other detaching entities.

Mr. Martinez states that for environmental considerations, the Commission's Environmental Consultant, Tom Dodson, recommends that the review of LAFCO 3194 is statutorily exempt from the CEQA and that the recommendation is based on the finding that the Commission's approval of the reorganization has no potential to cause any significant adverse effect on the environment.

Mr. Martinez states that the District is the current landowner for all five parcels being considered for the reorganization proposal and that if the Commission approves the annexation, and if none of the affected agencies submit a written opposition to a waiver of protest proceedings, staff recommends that the protest proceedings be waived and that the Executive Officer be directed to complete the action following the exhaustion of the mandatory reconsideration period of 30 days.

Mr. Martinez states that the proposal was submitted by the Phelan Pinon Hills CSD in order to relieve itself of a recurring annual property tax obligation of approximately \$30,000, which is a savings that would benefit the District as a whole. He states that a public agency is only exempt from paying property taxes on lands that it owns if the lands are within the agency's boundaries and that therefore, for these reasons, and those outlined throughout the staff report, staff supports the approval of LAFCO 3194.

Mr. Martinez reviews the determinations noting that the reorganization proposal is legally uninhabited containing no registered voters within any of the three areas as certified by the

Registrar of Voters as of August 7, 2015. He reviews staff's recommendations as listed in the staff report.

Chairman Curatalo asks the Commission for comment and questions for staff regarding the proposal.

Commissioner Cox states that the annexation area is made up of five parcels. Mr. Martinez confirms her statement. Ms. Cox states that the only adverse impact is the loss of \$9.00 per parcel, or \$45 per year, to the El Mirage Community to which Mr. Martinez responds in the affirmative. Commissioner Cox asks if a condition can be included to ensure that the \$45 per year amount is given to the El Mirage Community for its park and recreation services. Executive Officer Kathleen Rollings-McDonald states that the CSD, Special Districts and the community tried to come up with a contract but have been unsuccessful in their efforts. She states that the Commission can include as a condition of approval that a contract to return those funds to the El Mirage Community be imposed and that such contract must be finalized and received by staff prior to the issuance of the Certificate of Completion.

Commissioner Bagley states that he would like to see those fees returned to the El Mirage Community and asks if the Commission has a precedent for the return of fees. Ms. McDonald states that the Commission included a condition of approval for the City of Big Bear Lake for a similar issue. She states that the CSD is willing to provide the amount annually to the El Mirage Community and that staff is working to get a contract completed.

Commissioner Ramos asks if there is wording that can be added prior to the Certificate of Completion. Ms. McDonald states that the Commission has in the past included language in the conditions of approval for many different types of terms and that a modification to staff recommendations can be approved by the Commission.

Commissioner Lovingood states that changes must be made for the betterment of the community for the future and that the First District does try to address and work through all the challenges that it faces with both large and small communities and CSDs.

Commissioner Farrell states that he is concerned over the sense of separation of community and that the map does not appropriately reflect the density of the area. He further states that he does not feel that the annexation will change the community in a big way and that this is a planning time for the future and that the change makes sense for future development and growth.

Commissioner Lovingood states that the District is moving in a proactive way by annexing and is looking at the future of the area.

Chairman Curatalo opens the public comment session

Bobbie Farquhar, resident of El Mirage, states that she is hopeful that a contract with the District can be approved so that the District can pay the \$45 annual tax. She states that

\$45 a year may not seem like a lot but that funding does a lot to keep the park maintained and that the Community is fighting to survive.

Commissioner Bagley states that the Commission understands the Community's need for funding and that the Commission tries to do what is in the best interest over all and for the long term.

George Calloway, resident of El Mirage, states that he is concerned with the main water well in the area and that the County and CSD need to be aware of the issues related to that water well.

Don Bartz, General Manager, Phelan Pinon Hills CSD, states that the Board has talked about the payment to El Mirage and that the District is not opposed to the Commission's recommendation to enter into a contract with the County to pay that annual tax. He states that with regard to the water well issues, the District is familiar with the issues.

Chairman Curatalo closes the public comment session. He asks for further questions and comments from the Commission. There are none. He closes the public hearing

Commissioner Ramos moves approval of staff recommendation, as modified to include a condition of approval to return the annual \$45 fee to the El Mirage Community, for LAFCO 3194, second by Commissioner Williams. There being no opposition, the motion passes unanimously with the following roll call vote: Ayes: Bagley, Cox, Curatalo, Lovingood, Ramos, Warren Williams. Noes: None. Abstain: None. Absent: McCallon (Ms. Warren voting in his stead).

Commissioner Lovingood recuses himself from agenda items 7 and 8 and leaves the dais at 10:08 a.m.

Executive Officer Kathleen Rollings-McDonald introduces Michael Riddell from Best Best and Krieger and states that he is substituting for Clark Alsop, the Commission's Legal Counsel.

Executive Officer Kathleen Rollings-McDonald introduces Shay Lowry, and states that she is substituting for Tom Dodson, the Commission's Environmental Consultant.

(It is noted that Commissioner Warren leaves the dais at 10:10 a.m.)

Chairman Curatalo opens the public hearing for LAFCO 3199 and 3200 to be heard together.

ITEM 7 CONSIDERATION OF: (1) CEQA STATUTORY EXEMPTION FOR LAFCO 3199 AND (2) LAFCO 3199 –SPHERE OF INFLUENCE AMENDMENT FOR SAN BERNARDINO COUNTY FIRE PROTECTION DISTRICT (TWENTYNINE PALMS WATER DISTRICT AREA)

Executive Officer Kathleen Rollings-McDonald presents the staff report for LAFCO 3199, a complete copy of which is on file in the LAFCO office and is made apart of the report by its reference here. The item has been advertised in *The Sun* and *The Desert Trail* newspapers, both

are newspapers of general circulation in the area. In addition, individual notice was provided to affected and interested agencies, County departments and those individuals and agencies requesting special notice.

Executive Officer Kathleen Rollings-McDonald presents the staff report for LAFCO 3199 and states that the Twentynine Palms Water District initiated an application to expand the sphere of influence of the San Bernardino County Fire Protection District to include the entirety of the Twentynine Palms Water District, in order to encompass its Fire Department. She states that the initiation also included the annexation of its territory to County Fire, its South Desert Service Zone and Service Zone FP-5 and the divestiture of the fire functions of the Water District. She states that this sphere of influence expansion application is a companion to the Water District's request for annexation.

(It is noted that Commissioner Warren returns to the dais at 10:15 a.m.)

Ms. McDonald states that the proposed sphere expansion encompasses the entirety of the 29 Palms Fire service territory and that the Commission determined at their September 16, 2015 hearing that they would not require a municipal service review for the sphere amendments proposed for County Fire.

Ms. McDonald reviews the sphere of influence determinations and states that for present and planned land uses the expansion includes approximately 56,919 acres of varied land uses including rural living, single family residential, open space residential and public uses and floodway. Staff has determined that the growth for the area will be marginal based on historical data.

(It is noted that Commissioner Ramos recuses himself from LAFCO 3199 and 3200 and leaves the dais at 10:36 a.m.)

Ms. McDonald states that for present and probable need for public facilities and services in the area that the current provision of fire protection and emergency medical response services provided by 29 Palms Fire was reduced from two fire stations to one staffed fire station on June 1, 2013 due to a lack of a sustainable revenue source. She states that without a change in governance, further reductions in service will be required to be implemented on July 1, 2016.

Ms. McDonald states that for present capacity of public facilities and adequacy of public services that the agency to be expanded provides or is authorized to provide that County Fire operates 75 fire stations serving approximately 750,000 residents in approximately 16,535 square miles of unincorporated territory plus seven incorporated cities including Adelanto, Fontana, Grand Terrace, Hesperia, Needles, Victorville, and Yucca Valley. She states that the package of applications submitted by the Water District is intended to ensure adequate, long-term fire protection and emergency medical response services for the residents of the District. She states that the Water District can no longer afford to continue funding these services at appropriate levels.

Ms. McDonald states that for the existence of any social or economic communities of interest as determined by the Commission to be relevant to the agency that the social and economic communities of interest include: the City of Twentynine Palms, the Twentynine Palms Marine Corps Base, Joshua Tree National Park and the Morongo Unified School District. She states that the Commission's 2012 Municipal Service Review clearly identified the community of Twentynine Palms as being the area of the sphere of influence assigned the Twentynine Palms Water District and that the implementation of a fiscally sustainable agency to provide adequate levels of fire protection, and emergency response, will support the economic and social community defined by the boundaries of the Water District over the long-term and is critical for the safety and well-being of the community's residents and travelers along Highway 62.

Ms. McDonald reviews the services of the agency and states that Government Code Section 56425(i) requires that during a sphere of influence amendment or update for a special district, that the Commission is required to review and identify the range of services to be provided, as well as the nature and location of those services. She reviews the present functions of the San Bernardino County Fire Protection District and states that it has the full range of fire function assigned. Ms. McDonald states that it is proposed that the Water District be divested of its fire authority, through the approval of LAFCO 3200, which would change its listing of active functions and services to be water and sewer, as noted in the staff report.

Ms. McDonald states that for environmental considerations, that the Commission's environmental consultant Tom Dodson recommends that the sphere amendment is exempt from the requirements of CEQA as outlined in his letter included in the attachments to the staff report. She states that the legal notice of the Commission's consideration has been provided through publication of a 1/8 page ad and that the map and legal description of the sphere of influence amendment was prepared and certified by the County Surveyor's Office.

Ms. McDonald states that LAFCO 3199 is the first step in a two-part process to provide for continuing fire protection, and emergency medical response services to the territory of the Twentynine Palms Water District which includes the City of Twentynine Palms and surrounding communities. She states that without a change in governance, further reductions in service will be required to be implemented on July 1, 2016 and that for all the reasons outlined in the staff report, LAFCO staff supports the change in sphere of influence designation to expand the sphere for County Fire and its related service zones.

ITEM 8 CONSIDERATION OF: (1) CEQA STATUTORY EXEMPTION FOR LAFCO 3200 AND (2) LAFCO 3200 – REORGANIZATION TO INCLUDE ANNEXATIONS TO THE SAN BERNARDINO FIRE PROTECTION DISTRICT, ITS SOUTH DESERT SERVICE ZONE AND SERVICE ZONE FP-5 AND DIVESTITURE OF FIRE POWERS FROM THE TWENTYNINE PALMS WATER DISTRICT

Executive Officer Kathleen Rollings-McDonald presents the staff report for LAFCO 3200, a complete copy of which is on file in the LAFCO office and is made a part of the report by its reference here. The item has been advertised in *The Sun* and *The Desert Trail* newspapers, both of which are newspapers of general circulation in the area. In addition, individual notice was

provided to affected and interested agencies, County departments and those individuals and agencies requesting special notice. Individual notice has been provided to landowners within the area proposed for annexation, including the area modified by staff, as required by Government Code Section 56121 related to the imposition of an existing special tax.

Ms. McDonald states that the actions related to the proposal include Annexation of the territory within the Water District boundaries to the San Bernardino County Fire Protection District (hereafter County Fire), South Desert Service Zone and FP-5 and the divestiture of the fire function of the Water District allowing for the transfer of the operation to County Fire. Ms. McDonald states that as with all applications for change of organization, the Commission's review will center on making the required determinations in four areas: boundaries, land use, financial and service considerations, and environmental review.

Ms. McDonald states that for the issue boundaries, that there are two areas; area 1 of the reorganization includes the entirety of the Water District's boundary (approximately 56,919 acres) which is proposed for annexation into County Fire, and its South Desert Service Zone; and Area 2 which was modified by staff and includes annexation of the Water District boundary and the approximate 3,980 acre area outside of the Water District boundary into County Fire's Service Zone FP-5. She states that the area outside the Water District boundary is currently served by County Fire and its South Desert Service Zone but is proposed for inclusion within Service Zone FP-5 to address financing to capture the service delivery area in its entirety. She states that annexation of the reorganization territory into Service Zone FP-5 allows for the collection of a special tax from property owners to fund ongoing fire protection and emergency medical response to be provided.

Ms. McDonald states that one of the concerns staff identified was the need for transparency in the collection and use of the Service Zone FP-5 special tax applied to parcels within individual communities. She states that in order to identify a means to isolate the revenues received within the Twentynine Palms community, staff is proposing a condition of approval that requires County Fire to develop a subzone of FP-5 to address the study area of LAFCO 3200 prior to placement of the special tax on the tax rolls and an outline of the process and signed statements from County Fire be provided prior to the issuance of the Certificate of Completion for the reorganization.

Ms. McDonald states that the Twentynine Palms Band of Mission Indians has tribal lands located in the southeastern portion of the Water District's boundaries abutting the Joshua Tree National Park and that staff contacted the Tribal Council to request that it review the proposed annexation and, if it did not object, to provide a resolution to allow for the overlay of County Fire and its Service Zones South Desert and FP-5 over its tribal lands. She states that on December 2, 2015, the Tribal Council consented to the inclusion of its tribal area within County Fire and that a copy of the resolution is included as a part of the attachment to the staff report.

Ms. McDonald states that based upon the review of the proposal, it is staff's position that LAFCO 3200 provides for a definite and certain boundary as required by LAFCO law for all the affected agencies, both Successor and continuing service providers

Ms. McDonald states that for the issue of land use that the approval of LAFCO 3200 will have no direct effect on the land use designations assigned within the annexation area by the City or County and that it will assist in implementing the goals of both the City's General Plan and the County's General Plan.

Ms. McDonald states that for the issue of financial and service considerations, the staff report details the financial elements. At the outset of the review, it was estimated that the unfunded retirement obligation for termination of the Safety portion of the District's PERS contract would be in the range of \$1,000,000 and that staff proposed the creation of a separate service zone to address that liability. She states that it was learned in late November that the amount was actually estimated at \$2,950,000, three times the original estimate, setting in motion fervent discussions on the best method to resolve this liability.

Ms. McDonald states that it was determined that the Safety portion of the District's PERS contract will be placed in "inactive" status upon the effective date of the reorganization; and that the City of Twentynine Palms will assume the long-term obligation for the unfunded balance not covered by existing financing through a contractual relationship. She states that this unprecedented mechanism to have an agency that is not directly affected by a jurisdictional change assuming an uncapped liability for the Water District's retirement burden caused concern for staff. She states that this concern was tempered by the fact that should the Water District's fire operation cease without a jurisdictional change, the City would be required to provide fire service to its territory by statute. She states that in effect the use of City funds to resolve this liability dilemma protects the residents of the City of Twentynine Palms while also assisting the residents in the unincorporated sphere area.

Ms. McDonald states that in yet another twist to these discussions, in late January, staff learned that the creation of a service zone under County Fire to hold and annually receive the funds necessary to ultimately pay this retirement obligation would not be allowed by the County Auditor-Controller which shifted the discussion to determine a means to provide for a secure financing mechanism to hold the funds as well as receive additional funds. She states that City staff and its Legal Counsel along with Water District staff and its Legal Counsel met and negotiated the development of a mechanism to address this funding and that staff's understanding of the draft document is that it proposes the creation of a public agency Irrevocable Trust, under the entity identified as "Public Agency Retirement Services (PARS)", between the City and PARS to hold the revenues which will ultimately pay for termination of the Water District's Safety Plan under PERS. She states that there are a number of unique aspects to the mechanism as outlined in the staff report and that it also specifies that the termination of the Water District's safety contract will be at the sole discretion of the City of Twentynine Palms. She states that staff understands this provision as the City may be assuming an obligation of \$2,000,000 or more depending upon the economy and the termination timing of the contract.

Ms. McDonald states that there are issues related to transfer of fire responsibility from the Water District to County Fire and that staff has recommended terms and conditions to address those issues as detailed in the staff report. She states that prior to the issuance of the certificate of completion, a copy of the signed contractual agreement between the Water District and the City shall be provided to staff that will address the mechanism to fully satisfy

the unfunded liability; documentation that Worker's Compensation tailing insurance has been obtained by the Water District; and the rescission of Ordinance #89 as detailed in the staff report.

Ms. McDonald states that as noted in the staff report, Station #421 is to be sold to the City of Twentynine Palms and leased back to the South Desert Service Zone for at least seven years in order to provide service. She states that at no time has the Commission authorized an arrangement where a public facility is purchased for future use such as being presented for LAFCO 3200. She states that Station #421 was built from the revenues received by the Water District's fire operation through the residents of the community and staff has grave concerns regarding the establishment of a precedent for future proposals. However, the unique issues associated with the repayment of the unfunded retirement obligation necessitate this action. She says that staff has proposed conditions of approval related to this issue as outlined in the staff report.

Ms. McDonald states that a Plan for Service, a Fiscal Impact Analysis (FIA), updates to the Plan and FIA, and the Employee/Property Transition Plan identifying the expenditures and revenues for transferring the Water District's service responsibility to the South Desert Service Zone of SBCFPD have been submitted. She reviews the financial information as noted in the staff report. She states that an additional item was identified while reviewing the Water District's audits and that in Fiscal Year 2014-15, an Explorer's Fund was created to isolate donations to support the Fire Explorer program as well as expenses. She states that as a condition of approval that upon the successful completion of LAFCO 3200, the fund balance for this program will transfer to County Fire and that the funds are to be used to support the same type program within County Fire.

Ms. McDonald states that for environmental review the Commission's environmental consultant Tom Dodson has reviewed this proposal and has recommended that the reorganization is statutorily exempt from CEQA and that the determination is based on the fact that the reorganization will transfer the delivery of fire protection and emergency medical response from one entity to another which will not result in any physical impacts on the environment.

Ms. McDonald states that staff has received comments from the public requesting additional information on the proposal and that the areas of concern generally included objection to the imposition of a special tax due to financial hardships of homeowners, requests for additional clarification as to why residents do not have the opportunity to vote on the imposition of a special tax, and comments that the City should provide the necessary funding to allow for the Water District to maintain its Fire Department.

Ms. McDonald states that adequate emergency medical response and fire protection are key health and safety issues for any community and that emergency medical response is the first order of business as it is more than three quarters of the Twentynine Palms Fire Department's responses. She states that the proposal does require that the landowners within the community provide the financial support necessary to continue the emergency service but that the alternative is to retain an insolvent service through the Water District which cannot use its other funds to assist in the fire operation due to legislative restrictions.

She states that it also requires that the City of Twentynine Palms assume a generally unknown future liability for payment of the Water District's retirement liability for its Fire Department, an unheard of precedent for the Commission.

Ms. McDonalds reviews the recommendations as noted in the staff report. She states that staff supports the approval of this proposal and recommends approval of LAFCO 3200 as modified and presented in the staff report.

Chairman Curatalo calls for questions and comments from the Commission for staff.

Ms. McDonald states that she would like to express her thanks and commends all the parties involved with this proposal and their willingness to cooperate to come to agreements that will benefit the community now and in the future.

Commission Cox asks if there has been a prior attempt by the water district to raise revenue for the fire department. Ms. McDonald states that two attempts to raise the revenue have been tried and both have failed. Commissioner Cox states that it is troubling that a community would not take a more involved stance in supporting their public services. She states that she is a strong proponent for self-governance and that she is disappointed in the elected officials who are charged with oversight of these matters and that when they fail agencies such as this Commission are needed to step in and help communities govern themselves. She asks why the issue regarding unfunded pension liability was not identified during the service review. Ms. McDonald states that the information was not available from CALPERS at the time of the service review.

Commissioner Cox states that the City must proceed with caution and that the liability may continue to grow. She asks why the City is willing to pay for the liability. Ms. McDonald states that if the annexation to County Fire fails, the City will be responsible to provide the fire service and the City cannot afford to do so.

Commissioner Cox states that she did not see a recommendation to lower the District's appropriation limits. Ms. McDonald states that since it will be divesture, there will be no more appropriation.

Commissioner Cox states that she would like the Commission to extend the protest period to 45 days. Ms. McDonald states that the timeline does not allow for an extended protest period as the completion must be finalized by July 1, 2016.

Commissioner Bagley asks how staff determined the 50% funding transfer. Ms. McDonald states that the number was negotiated by the two parties not by staff. Commissioner Bagley gives a quick synopsis of his background and states that he is personally familiar with the local government in Twentynine Palms and that the proposal before the Commission shows a failure of local government. He further states that he is concerned with the purchase and leasing of the fire station since the community will have paid for that asset twice. He asks what will happen to station at the end of the lease. Ms. McDonald states that County Fire feels that there is larger and better site needed to provide fire service for the community in the future and that during the seven year lease period, they

intend to secure funding in order to build a new station. At that time the leased station will be converted to a different use through the City.

Michael Riddell, LAFCO Legal Counsel, states for the record that Commissioner Ramos recused himself and left the dais at 10:36 a.m.

Ray Kolisz, General Manager, Twentynine Palms Water District, states that the challenges of sustainability for fire protection and emergency medical care are great and that the board is in support of the annexation to County Fire. He expresses his thanks to the City of Twentynine Palms for their cooperation and support and also thanks LAFCO staff for all of their work in this endeavor.

Dan Mintz, Mayor, City of Twentynine Palms, states that the city council passed a resolution in support of the annexation. He states that one of the issues has been that two communities, Twentynine Palms and Desert Heights, do not agree and do not support each other on local issues and it makes it difficult to get the financial support necessary to sustain the fire service. He states that the City is fiscally responsible and that the council is very financially conservative which is why they can afford to help with the unfunded liability. He states that the situation has been addressed for a long time to no avail and that the decision to move forward with annexation was not an easy one and he thanks all those involved for all their efforts in this proposal.

Frank Luckino, City Manager, City of Twentynine Palms, clarifies the issue regarding PERs and states that the City is risk adverse and that when a plan is terminated in PERs, the full unfunded liability is due. So PERs has outlined the mechanism to put the retirement plan on hold in order to pay the unfunded liability in full at a more advantageous future date.

Commissioner Bagley states that the two unusual elements of the proposal are the selling and leasing of the fire station and that of the City taking on the District's unfunded liability. He states that the fire department has five employees with a three million dollar unfunded pension liability. He states that during the service review, LAFCO pointed out the need to fix the situation and that now the people are going to have an increase in property tax in order to help to sustain the fire department. He states that it is his opinion that the Water District has acted irresponsibly in the issue of the fire department sustainability. He asks what the negative side of the City taking on the Water District's unfunded liability is.

Mr. Luckino states that the City has reserves and that the negative part is there is no cap on the liability but that the marginal increase in the bonds in the future will help with the liability. He states that they are aware of the calculated risk and that when the appropriate time comes they will terminate PERs and pay the balance of the unfunded liability.

Commissioner Bagley states that Twentynine Palms is the only community that does not receive tax funding for their fire department and that it was a decision made in the past that is hurting the community now and that it is a complicated situation.

Mr. Lukino states that the City council deliberated over this issue and that they felt that they made the best decision they could for the situation.

Mark Hartwig, Fire Chief, San Bernardino County Fire Protection District, states that he appreciates all of the work put forth in this endeavor by the County Finance Staff, Fire Department staff, LAFCO staff, the City and Water District and that County Fire is in support of the annexation.

Commissioner Bagley asks if County Fire has a capital improvement plan in place for the building of a new facility to replace the City owned fire station that they will be leasing. Chief Hartwig states that County Fire understands that they are inheriting everything as is and that they currently do not have a capital improvement plan but they know the City wanted to keep the station as a City-owned property so a compromise has been made.

Commissioner Bagley states that it is important to look to the future and keep a sustainable funding source for fire protection and emergency medical service.

Chairman Curatlo calls for a recess of the hearing at 11:34 a.m., reconvening at 11:46 a.m.

Chairman Curatlo makes the announcement that agenda items 9 through 14 will be continued to the March hearing.

(It is noted that Commissioner Warren returns to the dais at 11:48 a.m.)

Chairman Curatlo opens the public comment session.

Andre Harris, resident of Twentynine Palms, speaks in opposition of the annexation. She states she feels the mismanagement of funds will continue and that the residents have not been given an opportunity to vote for or against the increase in property tax. She states that the community has not been given the opportunity by the City of Twentynine Palms to voice their opinions. She feels that the City has enough resources to fund the fire department. She feels that the community should take care of their own issues.

Commissioner Bagley thanks Ms. Harris for her comments and asks where she resides and explains the public protest process and that the County will be in control of the finances. He gives an explanation of how the water agency and the City were created and how the boundaries were determined. Ms. Harris asks if an increase to the water bill will help to support the financing of the fire department. Legal Counsel Riddell states that the law does not allow the District to incorporate water service charges with fire charges and that water service charges must be used to provide water service only.

Commissioner Bagley states that every other community has property tax revenue to fund its fire department, but Twentynine Palms does not, which is what has created this issue of non-sustainability.

Robert Warrenton, resident of Twentynine Palms, states that his family has 4 parcels, which are not improved parcels, and he has no objection to paying for fire protection but he is opposed to such a large increase in cost. He is unhappy to learn of the large deficit and that he feels that the whole situation is a bad reflection on the Water District. He further

states that he has put his trust in the community leaders and that they have disappointed him. He states that he is opposed to the tax increase without the right to vote.

Commissioner Cox asks for staff to explain the process of combining parcels for tax purposes, to which Ms. McDonald states that properties that are contiguous can be combined for the purpose of property tax savings, not for development, and that the County Assessor's Office can help him with his process.

Commissioner Bagley states that he hopes that the combination of parcels will be a financial help. He states the situation in Twentynine Palms is not unique and that LAFCO raises the question of sustainability all the time and that the public has a responsibility to monitor their elected officials to make sure that they are performing in a fiscally appropriate manner. He states that the City or the District can come before LAFCO in the future and have the situation re-evaluated and that maybe in the future, Twentynine Palms can become financially solvent enough to take back their fire services if they so desire.

Mr. Warrenton asks about the protest process. Ms. McDonald states if the proposal is approved today, there is a 30-day reconsideration period followed by a 30-day protest period and that a legal ad will be published and a protest notice will be mailed to all property owners as required by law. She reviews the thresholds for protest.

Ed Valderan, property owner in Twentynine Palms, speaks in opposition to the annexation. He questions the labor rates for the fire department, he asks what date the protest will be held and asks for a 45-day reconsideration. Ms. McDonald states that the date is not known exactly but it should be near the end of March and will last for 30 days.

Patrick Munoz, City Attorney, Twentynine Palms, states that the annexation is a solution to a problem that has been around for a long time and that the City is looking out for the citizens of Twentynine Palms. He states that the City of Twentynine Palms is not required to provide a fire department, they are only required to provide a fire chief. He states that the City is taking a risk with the unfunded liability and that the City is doing what is best for the citizens' protection. He states that the City is in support of a 30-day protest period.

Commissioner Cox states that the citizens of Twentynine Palms will get excellent service from County Fire and that the community will get more than they are paying for. She states that she would encourage transparency in the budgets for fire protection.

Commissioner Warren states that bodies like the commission have been put in place to help facilitate communication when needed and that the commission helps to facilitate transparency and helps to ensure that the citizens are receiving appropriate municipal services.

Chairman Curatalo asks what the response time are and asks about the "two-in" mode of operation. Chief Hartwig states that "two-in two-out" was meant to keep firefighters safe, and that if the situation arises for a rescue on a three man truck, that there are policies in place to ensure life-saving in a dire situation.

Chairman Curatalo calls for further testimony; there being none, closes the hearing.

Commissioner Bagley moves approval of staff recommendation for LAFCO 3199, second by Commissioner Warren. There being no opposition, the motion passes unanimously with the following roll call vote: Ayes: Bagley, Cox, Curatalo, Warren, Williams. Noes: None. Abstain: None. Absent: Lovingood, McCallon (Ms. Warren voting in his stead), Ramos.

Commissioner Warren moves approval of staff recommendation for LAFCO 3200, second by Commissioner Williams. There being no opposition, the motion passes unanimously with the following roll call vote: Ayes: Bagley, Cox, Curatalo, Warren, Williams. Noes: None. Abstain: None. Absent: Lovingood, McCallon (Ms. Warren voting in his stead), Ramos.

DISCUSSION ITEMS

ITEM 9 STATUS REPORT ON LAFCO 3176 – SPECIAL STUDY FOR YERMO, DAGGETT AND NEWBERRY COMMUNITY SERVICE DISTRICTS

Continued to the March 16, 2016 hearing.

ITEM 10. STATUS REPORT ON LAFCO 3189 – SPECIAL STUDY FOR MORONGO VALLEY COMMUNITY SERVICE DISTRICT

Continued to the March 16, 2016 hearing.

ITEM 11 STATUS REPORT ON RIM OF THE WORLD PARK AND RECREATION DISTRICT

Continued to the March 16, 2016 hearing.

INFORMATION ITEMS

ITEM 12. LEGISLATIVE UPDATE REPORT

Continued to the March 16, 2016 hearing

ITEM 13. EXECUTIVE OFFICER'S REPORT

Continued to the March 16, 2016 hearing

ITEM 14 COMMISSIONER COMMENTS

Commissioner Cox states that she hopes this is the end of the painful decisions for the Commission.

Commissioner Farrell thanks staff for their efforts in the processing of the proposals.

ITEM 15 COMMENTS FROM THE PUBLIC

There are none.

**THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE COMMISSION THE
HEARING IS ADJOURNED AT 12:25 P.M.**
ATTEST:

REBECCA LOWERY
Clerk to the Commission

LOCAL AGENCY FORMATION COMMISSION

JAMES CURATALO, Chairman

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE : MARCH 7, 2016

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: AGENDA ITEM #2 – APPROVAL OF EXECUTIVE OFFICER'S EXPENSE REPORT

RECOMMENDATION:

Approve the Executive Officer's Expense Report for Procurement Card Purchases and expense claim for February 2016 as presented.

BACKGROUND INFORMATION:

The Commission participates in the County of San Bernardino's Procurement Card Program to supply the Executive Officer a credit card to provide for payment of routine official costs of Commission activities as authorized by LAFCO Policy and Procedure Manual Section II – Accounting and Financial Policies #3(H). Staff has prepared an itemized report of purchases that covers the billing period of January 23, 2016 through February 22, 2016

In reconciling the expenditures, it was noted that a purchase in the amount of \$43.20 was made against the LAFCO credit card that had not been authorized by the Executive Officer. Upon further investigation, it was determined that the transaction was fraudulent. The credit card was cancelled, and a new card was issued. Both the Auditor Controller's office and US Bank were notified of the fraudulent transaction. The LAFCO credit card account will be credited with the amount of \$43.20.

In the interim, the Executive Officer requested a temporary credit card through the Auditor Controller's office to cover expenses due to travel that needed to be completed prior to the arrival of the new card. These expenses will be reflected in next month's reconciliation report.

It is recommended that the Commission approve the Executive Officer's expense report as shown on the attachments.

KRM/rcf

Attachments



COUNTY OF SAN BERNARDINO
PROCUREMENT CARD PROGRAM

Page 1 of 1

MONTHLY PROCUREMENT CARD PURCHASE REPORT

Card Number [REDACTED]		Cardholder Kathleen Rollings-McDonald			Billing Period 1/23/16 to 2/22/16		
Date	Vendor Name	Receipt/ Invoice No.	Item Description	Purpose	\$ Amount	Reconciled (R) Disputed (D)	Sales Tax Included on invoice (Yes or No)
1-21	Currant American Brass	1	Dinner – Rollings-McDonald	CALAFCO Legislative Committee Meeting	58.53	R	Y
1-22	Sofia Hotel San Diego	2	Hotel – Rollings-McDonald	CALAFCO Legislative Committee Meeting	190.63	R	Y
1-22	Southwest Airlines	3	Air Fare – Rollings-McDonald	CALAFCO Legislative Committee Meeting	262.46	R	N
1-22	Advance Copy Service	4	Monthly Payment	Sharp Photo Copier	453.57	R	Y
1-25	Thomas West	5	Monthly Payment	Law Library Updates	178.42	R	Y
2-04	Advance Copy Service	6	Monthly Payment	Sharp Photo Copier	465.58	R	Y
2-09	Daisy IT	7	Monthly Payment	Office Supplies – Flash Drive	8.99	R	Y
2-09	Daisy IT	8	Monthly Payment	Office Supplies – Copy Paper 3-hole, envelopes, Black & Blue Toner, etc.	1,060.98	R	Y
2-09	Daisy IT	9	Monthly Payment	Office Supplies – Copy Paper	142.89	R	Y
2-10	Storetrieve	10	Monthly Payment	Records and Storage Maintenance	49.03	R	N
2-11	Verizon	11	Payment	Phone line for Alarm & Fax	111.07	R	Y
2-11	Verizon	12	Payment	Phone line for MBPS CIRCUIT	953.99	R	Y
2-11	Thomas West	13	Monthly Payment	Law Library Updates	178.42	R	Y
2-19	Mini Market La Brisa	14	Fraudulent Purchase	Fraudulent Purchase	43.20	D	UNK

The undersigned, under penalty of perjury, states the above information to be true and correct. If an unauthorized purchase has been made, the undersigned authorizes the County Auditor/Controller-Recorder to withhold the appropriate amount from their payroll check after 15 days from the receipt of the cardholder's Statement of Account.

Cardholder (Print & Sign) Kathleen Rollings-McDonald	Date 3/7/16
--	-----------------------

Approving Official (Print & Sign) James Curatalo, Chairman	Date 3/16/16
--	------------------------

TO BE COMPLETED BY EMPLOYEE

Principal place of residence Redlands

TOTAL MILES THIS CLAIM: 0 ¢ = \$

Signed James V. Curatalo Claimant 04N Mail Code 3, 8, 16 Date 3, 8, 16 Approved _____ Authorized Signer (Print and Sign)
James V. Curatalo

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE : MARCH 8, 2016

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer

TO: LOCAL AGENCY FORMATION COMMISSION

**SUBJECT: AGENDA ITEM #3 - RATIFY PAYMENTS AS RECONCILED FOR
MONTH OF FEBRUARY 2016 AND NOTE REVENUE RECEIPTS**

RECOMMENDATION:

Ratify payments as reconciled for the month of February 2016 and note revenue receipts for the same period.

BACKGROUND INFORMATION:

Staff has prepared a reconciliation of warrants issued for payments to various vendors, internal transfers for payments to County Departments, cash receipts and internal transfers for payments of deposits or other charges that cover the period of January 1, 2016 through January 31, 2016.

Staff is recommending that the Commission ratify the payments for February 2016 outlined on the attached listings and note the revenues received.

KRM/rci

Attachment

MONTHLY RECONCILIATION OF PAYMENTS

MONTH OF FEBRUARY 2016 PAYMENTS PROCESSED					
VOUCHER DOCUMENT ID	ACCOUNT	NAME	WARRANT NUMBER	WARRANT DATE	AMOUNT
PV8908499	2424	TOM DODSON & ASSOCIATES	3269691	2/12/2016	\$ 170.00
PV8908500	2445	ROBERT J ALDRICH	3269672	2/12/2016	\$ 4,200.00
PV8908501	2400	BEST BEST & KRIEGER	3269586	2/12/2016	\$ 1,331.70
PV8908502	2405	WHITE NELSON DIEHL EVANS LLP	8791433	2/12/2016	\$ 1,500.00
PV8908503	2905	INLAND EMPIRE PROPERTIES	3269703	2/12/2016	\$ 4,353.41
PV8908504	2445	INSTITUTE FOR LOCAL GOVERNMENT	8791293	2/12/2016	\$ 2,300.00
PV8908505	2085	DAILY JOURNAL	8791250	2/12/2016	\$ 1,293.60
PV8908506	2445	CITY OF SAN BERNARDINO	8791222	2/12/2016	\$ 300.00
PV8908507	2445	ROSENOW SPEVACEK GROUP INC	8791381	2/12/2016	\$ 11,548.75
PV8908508	2941	CALAFCO	8794028	2/18/2016	\$ 1,160.00
PV8908509	2444	MJS ALARM CORP	3270062	2/18/2016	\$ 102.00
TOTAL					\$ 28,259.46
MONTH OF FEBRUARY 2016 INTERNAL TRANSFERS PROCESSED					
JVIB 07092037D	2037	JANUARY 2015 PHONE		2/9/2016	\$ 213.01
JVATXRT11472	2308	CAL-CARD PAYMENT - JANUARY		2/9/2016	\$ 2,268.59
JVPURRT11439	2310	LAFCO 3198 - NOTICE OF HEARING - FOLD/TAB/LABEL		2/17/2016	\$ 724.62
JVPURRT11441	2310	1ST CLASS - MAIL		2/17/2016	\$ 1.25
JVPURRT11443	2310	1ST CLASS PRESORT- MAIL		2/17/2016	\$ 457.56
JVPURRT11457	2310	PACKAGING - MAIL		2/17/2016	\$ 544.63
JVPURRT11436	2310	LAFCO 3198 - NOTICE OF HEARING - BULK MAIL CHARGES		2/18/2016	\$ 15,983.74
JVPURRT11454	2310	INTER-OFFICE MAIL		2/18/2016	\$ 159.60
JVPURRT11461	2310	PRESORT FLATS - MAIL		2/18/2016	\$ 3.71
JVPURRT10905	2323	LAFCO 3198 - NOTICE OF HEARING - PRINTING CHARGES		2/9/2016	\$ 4,189.93
JVPURRT12277	2323	LAFCO 3200 - NOTICE OF HEARING - PRINTING CHARGES		2/25/2016	\$ 1,483.74
JVIB 07092410AB	2410	JANUARY 2016 DATA PROC		2/9/2016	\$ 3.23
JVIB 07092410AF	2410	JANUARY 2016 DATA PROC		2/9/2016	\$ 189.85
JVIB 07092410E	2410	JANUARY 2016 DATA PROC		2/9/2016	\$ 58.08
JVIB 07092410P	2410	JANUARY 2016 DATA PROC		2/9/2016	\$ 173.64
JVIB 07092410T	2410	JANUARY 2016 DATA PROC		2/9/2016	\$ 67.63
JVIB 07092410X	2410	JANUARY 2016 DATA PROC		2/9/2016	\$ 192.16
JVIB 07092420J	2420	JANUARY 2016 ISD OTHER IT SERVICES		2/9/2016	\$ 43.83
JVIB 07092421F	2421	JANUARY 2016 ISD DIRECT		2/10/2016	\$ 818.01
JV890RT11534	2424	NOE - LAFCO 3197 & LAFCO 3198		2/9/2016	\$ 100.00
JV890RT12452	2424	NOE - LAFCOs 3193, 3194, 3199, & 3200		2/25/2016	\$ 200.00
JV890RT12153	2445	ROV - LAFCO 3193 - INV 2386		2/22/2016	\$ 179.37
JV890RT12153	2445	ROV - LAFCO 3203 & 3204 - INV 2387		2/22/2016	\$ 179.37
JV890RT12153	2445	ROV - LAFCO 3205 & 3206 - INV 2388		2/22/2016	\$ 179.37
JV890RT12153	2445	ROV - LAFCO 3194 - INV 2385		2/22/2016	\$ 179.37
JVATXRT12154	2445	2015 FOURTH QUARTER PAYROLL FEES		2/23/2016	\$ 891.00
TOTAL					\$ 29,485.29

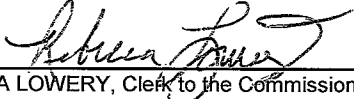
MONTHLY RECONCILIATION OF PAYMENTS

MONTH OF FEBRUARY 2016 CASH RECEIPTS

DEPOSIT DOCUMENT ID	ACCOUNT	DESCRIPTION	DEPOSIT DATE	AMOUNT
CR890A09795	9545	INDIVIDUAL NOTICE	2/11/2016	\$ 17,000.00
CR890A09795	9555	LEGAL FEES	2/11/2016	\$ 1,150.00
CR890A09795	9660	ENVIRONMENTAL	2/11/2016	\$ 750.00
CR890A09795	9800	LAFCO FEES	2/11/2016	\$ 37,595.00
CR890A09795	9930	MISCELLANEOUS	2/11/2016	\$ 20.00
CR890A10081	9545	INDIVIDUAL NOTICE	2/19/2016	\$ 22,382.02
CR890A10081	9595	PROTEST HEARING	2/19/2016	\$ 18,000.00
TOTAL				\$ 79,897.02

MONTH OF FEBRUARY 2016 INTERNAL TRANSFERS RECEIVED

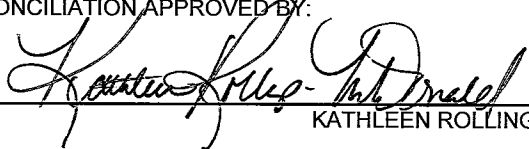
TRANSFER DOCUMENT ID	ACCOUNT	NAME	TRANSFER DATE	AMOUNT
JVCFDRT12402	9655	GIMS FEES - LAFCO 3198	2/24/2016	\$ 1,450.00
TOTAL				\$ 1,450.00



REBECCA LOWERY, Clerk to the Commission

3/8/2016
DATE

RECONCILIATION APPROVED BY:



KATHLEEN ROLLINGS-McDONALD, Executive Officer

3/8/2016
DATE

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: MARCH 9, 2016

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #5 – Continuation of Status Report on LAFCO 3176 --
Special Study for Yermo, Daggett and Newberry Community Services
Districts

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of the status report and file.
2. Determine that additional status reports for LAFCO 3176 would no longer serve its intended purpose and direct the Executive Officer to forgo any further updates.

BACKGROUND:

Item 9 on the February 17 agenda was the status report for LAFCO 3176 Special Study for Yermo, Daggett and Newberry Community Services Districts. Due to time constraints at the hearing, the item was continued to the March 16, 2016 hearing. The original staff report and its attachments are included with this report.

At its January 2015 hearing, the Commission completed the special study of the Daggett, Newberry, and Yermo Community Services Districts addressing issues identified in the 2012-13 Grand Jury Report. The special study identified numerous areas where the districts failed to comply with the State Constitution, State Law, and generally accepted best management practices. These issues were outlined in the original service review in 2009 and remained unresolved through the special study. The Commission directed staff to continue to monitor the districts' progress to rectify the problems identified in the special study and update the Commission every six months until all of the items are satisfied.

Since the January 2015 special study:

- Newberry CSD has satisfied all of its outstanding requirements.

- Daggett CSD has satisfied all but one outstanding requirement (reserve policy).
- To date, Yermo CSD has not satisfied any of its outstanding requirements identified in the special study relating to the State Constitution or CSD Law. The February staff report identified that the District has not responded to LAFCO staff's requests for information. Since the publication of that report, the District included LAFCO on its notification to its independent auditor requesting the commencement of the process to establish an appropriations limit. No other information has been received.

LAFCO staff's position is that for the communities of Newberry Springs and Daggett continued updates will not serve a future purpose as they have, in general, fulfilled the requests of the Commission. Therefore, the focus would be on Yermo CSD. Since Yermo CSD has not satisfied any of its outstanding requirements identified in the special study, coupled with the cool reception of LAFCO's continuing review and recommendations for a reorganization of governance, to keep this matter open and continue the same mantra would serve little purpose and would allocate LAFCO's limited resources with little hope for a resolution.

For all these communities, with LAFCO conducting a service review, special study (which included a service review), and response to the Grand Jury all within six years, LAFCO's position for the communities has been well documented and conveyed. All of these reports detailed the challenges facing the community and included recommendations for the community to consider regarding alternative government structures - which were all deemed unacceptable to the community.

However, staff remains concerned that emergency medical response along the I-15 and I-40 corridors will continue to experience challenges as a result of the disjointed mechanism of four non full-time providers (three CSDs and County Fire station in Harvard). Conversely, the three districts provide adequate park and recreation and streetlight services. As for Daggett's water function which was of concern regarding its managerial and financial operations, the California Rural Water Association ("CRWA") in conjunction with the Mojave Water Agency have reached out to Daggett CSD as a part of its joint Small Water Systems Assistance Program. The CRWA is assisting Daggett CSD with financial management training as well as outlining the proper financial management system for the water operations which would then allow for better overall water service.

CONCLUSION:

Staff recommends that the Commission determine that additional status reports for LAFCO 3176 would not serve the intended purpose, and direct the Executive Officer to remove this from any future consideration. LAFCO staff remains committed to providing assistance to the districts whenever requested regarding any of the matters under the Commission's purview.

Should the Commission have any questions, staff will be happy to answer them prior to or at the hearing.

KRM/MT

Attachment: LAFCO Staff Report dated February 10, 2016 with Attachments

**LAFCO Staff Report
dated February 10, 2016 with Attachments**

Attachment

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: FEBRUARY 10, 2016

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #9 - Status Report on LAFCO 3176 -- Special Study for Yermo, Daggett and Newberry Community Services Districts

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of the status report and file.
2. Set the next status report for the August 2016 hearing for Daggett CSD and Yermo CSD.

BACKGROUND:

At its January 2015 hearing, the Commission completed the special study of the Daggett, Newberry, and Yermo Community Services Districts to address issues identified from the Grand Jury. The special study identified numerous areas where the districts failed to comply with the State Constitution, State Law, and generally accepted good-governance practices. These issues were outlined in the original service review in 2009 and remained unresolved through the special study. The Commission directed staff to continue to monitor progress to rectify the problems identified in the special study and update the Commission every six months until all of the items are satisfied.

The first status update to the Commission was in August 2015. The following is a summary from the first status update:

- Daggett CSD
 - Daggett CSD satisfied the following items: adopted a budget, forwarded the budget to the County Auditor, adopted its annual appropriations limit by resolution, and formalized a lease agreement with the County for the Daggett Community Center.

- Outstanding items were: had either not completed or forwarded copies of its audits to LAFCO and had not adopted a reserve policy pursuant to CSD Law.
- Yermo CSD
 - Yermo CSD did not satisfy any of the outstanding State Constitution or statutory items identified.
- Newberry CSD
 - Newberry CSD satisfied the following items: forwarded a copy of its budget to the County Auditor, adopted by resolution an appropriations limit, and formally approved accounting procedures.
 - The sole outstanding item was adopting reserve policies.

CURRENT UPDATE:

This is the second scheduled update related to the special study. Since the first status update:

- Newberry CSD has satisfied its sole outstanding requirement (reserve policy).
- Daggett CSD has satisfied all but one outstanding requirement (reserve policy).
- To date, Yermo CSD has not satisfied any of its outstanding requirements identified in the special study relating to the State Constitution or CSD Law. Further, the District has not responded to LAFCO staff's requests for information, is experiencing turmoil within the board, and has been operating without a general manager for over three months.

The issues that were to be addressed as identified from the August 2015 status report are outlined below in italics. This is followed by LAFCO staff's analysis of the current situation:

All Districts

1. *Adopt and annually review reserve policies pursuant to Community Services District Law Section 61112.*

Newberry CSD adopted reserve policies at its August 25 meeting and provided a copy to LAFCO. Being so, Newberry CSD has satisfied all of the outstanding requirements identified by LAFCO.

Daggett CSD and Yermo CSD were requested to provide either (1) a copy of the reserve policies along with staff report and minutes, or (2) a statement that the district intends to comply with CSD Law Section 61112. As of the date of this report, both districts have not provided information on this statutory requirement.

Daggett CSD

1. *Originally not included as a monitoring item, Daggett CSD did not complete or provide copies of its FY 2012-13 and FY 2013-14 audits.*

Following the first status update from August 2015, Daggett CSD provided a copy of its FY 2012-13 audit and completed and provided a copy of its FY 2013-14 audit.

Yermo CSD

1. *Forward a copy of the final budget to the County Auditor pursuant to Community Services District Law Section 61110.*

As of the date of this report, Yermo CSD has not provided information on this statutory requirement.

2. *Adopt an annual appropriations limit by resolution authorizing the expenditure of the proceeds of taxes and review the annual calculation as a part of the annual financial audit, pursuant to Article XIIIB of the State Constitution, which is further acknowledged by Community Services District Law Section 61113.*

As of the date of this report, Yermo CSD has not provided information on this constitutional requirement. It is noted that LAFCO staff provided background information to the district and its known independent auditor on March 19, 2015 to assist the district in adopting an appropriations limit. Additionally, LAFCO staff has provided all notices and staff reports of its hearings to Yermo CSD, as well as correspondence following the August 2015 update summarizing the first status update.

Yermo CSD – Current Situation

It has been brought to the attention of LAFCO staff by government entities and the press that Yermo CSD is experiencing turmoil and uncertainty within its Board of Directors. Currently, more than one lawsuit has been filed against Yermo CSD (naming board members), two recall petitions have been certified, and the District has been operating without a general manager for over three months. To better understand these developments, LAFCO staff has assembled a timeline taken from news articles from the *Desert Dispatch*:

- **September 2015**
 - Recall effort announced against three District board members: Smith, Berner, and Clougen.
 - Board president Smith at a public meeting announces his resignation, to be effective December 31.

- Director Clougen resigns board position but remains as Fire Chief (an appointed position).
- October 2015 – District board presented with “intent to circulate” notices for recall petition of Smith and Berner.
- November 2015
 - General Manager resigns.
 - District cannot hold a meeting due to lack of quorum.
- December 2015
 - Board President Smith publicly rescinds his resignation that was to be effective December 31. It has been identified that the technical process of the resignation and rescission are in question.
- January 2016
 - LAFCO staff mails letter to District to obtain information for the status update. The letter requests a board and staff roster and an explanation on the lack of movement on the outstanding items from the January 2015 LAFCO special study. LAFCO staff follows up with a fax and phone call with message. As of the date of this report, LAFCO staff has not received any return correspondence or contact.
 - A mortgage company calls LAFCO stating that its phone messages left with the District have not been returned. It is attempting to remove a lien on a property associated with “Yermo Water Community Services District”.
 - A Cure and Correct letter is filed with the board citing Brown Act violations during the December meeting and Mr. Smith’s rescinding of his resignation.
 - The San Bernardino County Registrar of Voters announced that the two recall petitions (Smith, Berner) have been certified.
 - District board appoints a new fire chief.

It is the understanding of LAFCO staff that the District is seeking to fill the general manger position (as directors set policy and general managers implement policy – CSD Law Sections 61040 and 61051) and the vacant seat on the board.

As for the vacant seat on the board, pursuant to Government Code Section 1780(b), the district is required to notify the county elections official of the vacancy no later than 15 days after either the date on which the district board is notified of the vacancy or the effective date of the vacancy, whichever is later. LAFCO staff understands that the board has not yet been able to select a candidate it deems qualified. However, LAFCO staff has confirmed that Yermo CSD has not formally notified the Registrar of Voters of the existing vacancy. Therefore, LAFCO staff questions how an agency can actively seek to the fill a vacancy when it has not notified the County Registrar of Voters of the vacancy as required by law. Further, the with the vacancy taking place in September, the district is past the 60-day timeframe to make an appointment (Section 1780(c)). As

a result, the lack of adherence to state law concerning notifying the ROV and filling the vacancy within the statutory timeframe results in a government not responsive to the representation needs of those within the district and may be a symptom of larger issues. The code citations from the Government Code concerning vacancies is included as Attachment #3 to this report.

LAFCO has already conducted a service review (2009) and a special study which contained a service review update (2015). Both of these reports detailed the challenges facing the community. Additionally, the reports included recommendations for the community to consider regarding alternative government structures; which were unacceptable to the community.

The next status update is scheduled for the August 2016 hearing. At that time, staff will update the Commission on the results of the recall as well as the current health of the district (governance, management, finances, and service delivery). It is hoped that the district will begin to comply with the outstanding requirements of the State Constitution and State Law.

CONCLUSION:

In concluding this status report on compliance,

- Newberry CSD has satisfied all of its outstanding requirements as identified in the special study.
- Daggett CSD has satisfied all but one outstanding requirement as identified in the special study (adoption of a reserve policy pursuant to CSD Law).
- To date, Yermo CSD has not satisfied any of its outstanding requirements from the State Constitution or CSD Law as identified in the special study. Additionally, the District is experiencing turmoil and uncertainty.

LAFCO staff will continue to provide assistance to the districts whenever requested to help achieve compliance with state law and good governance objectives.

Staff recommends that the next status report on compliance be scheduled for the August 2016 hearing for Daggett CSD and Yermo CSD. Newberry CSD has satisfied all of its outstanding requirements; therefore, it will not be included in subsequent status updates. At that time, staff will update the Commission on the results of the Yermo CSD recall as well as the current health of the district (governance, management, finances, and service delivery).

For Yermo CSD, the lack of adherence to state law concerning notifying the ROV and filling the vacancy within the statutory timeframe results in a government not responsive to the representation needs of those within the district.

Should the Commission have any questions, staff will be happy to answer them prior to or at the hearing.

KRM/MT

Attachments:

1. First Status Report - LAFCO Staff Report dated August 12, 2015
2. Staff Report for LAFCO Special Study dated January 13, 2015
3. Government Code, Title 1, Division 4, Chapter 4, Article 2 (Vacancies)

**First Status Report – LAFCO Staff Report
dated August 12, 2015**

Attachment 1

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: AUGUST 12, 2015

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager

TO: LOCAL AGENCY FORMATION COMMISSION



SUBJECT: Agenda Item #7 - Status Report on LAFCO 3176 -- Special Study for Yermo, Daggett and Newberry Community Services Districts

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of the status report and file.
2. Set the next status report for the February 2016 hearing.

BACKGROUND:

At the January 2015 hearing, the Commission completed the special study of the Daggett, Newberry, and Yermo Community Services Districts. The special study identified numerous areas where the districts fail to comply with the State Constitution, State Law, and generally accepted good-governance practices. These issues were outlined in the original service review in 2009 and continued through the special study. The Commission determined that the districts were not in compliance with the following requirements and directed staff to continue to monitor progress to rectify the problems and update the Commission every six months until all of the items below are satisfied.

STATUS UPDATE:

The identified issues are outlined below in italics followed by LAFCO staff's analysis of the current situation:

All Districts

1. *Adopt and annually review reserve policies pursuant to Community Services District Law Section 61112.*

Newberry CSD has indicated that adoption of reserve policies is scheduled for its August 25 meeting and that it will provide a copy to LAFCO upon approval.

As of the date of this report, Daggett CSD and Yermo CSD have not provided information on this statutory requirement.

2. *Forward a copy of the final budget to the County Auditor pursuant to Community Services District Law Section 61110.*

Newberry CSD has completed this statutory requirement and has indicated that it will continue to adhere to it.

Daggett CSD has placed adoption of its FY 2015-16 budget for its August 12, 2015 meeting, and it has indicated that it will provide a copy to LAFCO and the County Auditor following approval. LAFCO staff will provide an update on this statutory requirement at the hearing.

As of the date of this report, Yermo CSD has not provided information on this statutory requirement.

3. *Adopt an annual appropriations limit by resolution authorizing the expenditure of the proceeds of taxes and review the annual calculation as a part of the annual financial audit, pursuant to Article XIII B of the State Constitution, which is further acknowledged by Community Services District Law Section 61113.*

Daggett CSD adopted its annual appropriations limit by resolution at the district's June 26, 2015 hearing (Resolution 2014/15-004). Newberry CSD adopted its annual appropriations limit by resolution at the district's June 23, 2015 hearing (Resolution 70-2015). The districts and its independent auditor are aware of the requirement to review the annual calculation as a part of the annual financial audit.

As of the date of this report, Yermo CSD has not provided information on this constitutional requirement. It should be noted that LAFCO staff provided background information to the district on March 19, 2015 to assist the district in adopting an appropriations limit.

Newberry CSD

4. *Recommendation #5 from the 2012-13 Grand Jury Report reads for Newberry CSD to: " Work with the Board, County Auditor, and utilize resources such as the California Special Districts Association to develop a basic accounting manual". The CSD's March 2014 response to the Grand Jury reads, "Due to limited resources and the intrinsic limitations of a part time staff, our audit firm and our*

own Treasurer, are developing an accounting manual based on generally accepted accounting principles, to be implemented in the immediate future”.

Newberry CSD formally approved its accounting procedures at its February 24, 2015 meeting (Item 19).

Daggett CSD

5. *Continue to work with the County to address and formalize a lease arrangement or title transfer for the Daggett Community Center.*

The Community Center is located on County property and was constructed with HUD funding. Therefore, the concerns about the use of the facility, insurance, maintenance, etc. need to be resolved to eliminate risk and the potential financial obligation to the County.

A draft contract between the County and the District was reviewed and approved by HUD. The contract is to be signed by Daggett CSD, then submitted to the County Board for final approval (anticipated for September at this time). Pursuant to HUD’s direction, the contract will state that the County will record a lien on the property for five years with Daggett CSD continuing maintenance and operation during that term. However, during this time the County will still be exposed to risk. Following the five-year term, the title (and risk) will transfer to Daggett CSD if it meets the conditions of the contract.

6. *Provide LAFCO with a copy of all future water quality information provided to the public, to include water quality control reports, occurrences of contamination, and boil water orders through the initiation of the second cycle North Desert Service Reviews.*

LAFCO staff confirmed with County Environmental Health Services that there has been no occurrences of contamination or boil water orders since January 2015.

7. *Adopt an annual budget that conforms to generally accepted accounting and budgeting procedures by September 1 of each year at a noticed hearing pursuant to Community Services District Law Section 61110. Failure to comply with this requirement will necessitate further action by the Commission to resolve the issue.*

The District has placed adoption of its FY 2015-16 budget for its August 12, 2015 meeting. LAFCO staff will provide an update on this statutory requirement at the hearing.

Daggett CSD audits

Originally not included as a monitoring item, Daggett CSD has not yet completed its FY 2012-13 and FY 2013-14 audits. Completion of annual audits are a requirement of Community Services District Law Section 61118, and the timeframe to complete an audit is one year from the end of the fiscal year (Government Code Section 26909).

Completion of audits requires proper bookkeeping, and the determinations from the 2009 service review and 2015 special study identify systemic governance and managerial issues with Daggett CSD. On a positive note, since January 2015, the district has adopted its appropriation limit, is scheduled to adopt its first budget since 1995, and is moving towards resolution of the Community Center ownership.

Nonetheless, Government Code Section 26909 states that unless an audit is made by a district through an independent auditor, the County Auditor shall either make or contract with a certified public accountant to make an annual audit and that any costs incurred for the audit shall be borne by the district. At the next scheduled status report in February 2016, if satisfactory progress to complete the overdue audits is not being made, LAFCO staff will recommend that the Commission request the County Auditor to either make or contract for the audits pursuant to Government Code Section 26909.

Water System Consolidations

As a follow up on SB 88 (water system consolidations), the State Water Resources Control Board (SWRCB) in March 2015 released a listing of water systems for potential consolidation. The March 2015 listing concerns systems that have had at least one violation relating to water quality. Daggett CSD (Chromium 6) is one of two public water systems identified from San Bernardino County (the other system is CSA 70 W-4 in Pioneertown).

Of note, SWRCB has not yet identified water systems located within a disadvantaged community or unable to supply water due to the drought. An updated list to include these categories should be forthcoming.

CONCLUSION:

In concluding this status report on compliance, all three districts have at least one outstanding statutory compliance requirement. LAFCO staff will continue to provide assistance to the districts as requested to help achieve compliance. For Daggett CSD, at the next scheduled status report in February 2016, if satisfactory progress to complete the overdue audits is not being made, LAFCO staff will recommend that the Commission request the County Auditor to either make or contract for the audits pursuant to Government Code Section 26909.

Staff recommends that the next status report on compliance be scheduled for the February 2016 hearing. Should the Commission have any questions, staff will be happy to answer them prior to or at the hearing.

KRM/MT

**Staff Report for LAFCO Special Study
dated January 13, 2015**

Attachment 2

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: JANUARY 13, 2015

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #8: Special Study for Daggett, Newberry and Yermo
Community Services Districts including Plan for Service and Service
Review

RECOMMENDATION:

Staff recommends that the Commission take the following actions related to
LAFCO 3176:

1. For environmental review certify that the special study to include a plan for service and service review update are statutorily exempt from environmental review and direct the Executive Officer to file the Notice of Exemption within five (5) days.
2. Receive and file the special study to include a plan for service and service review update for the Daggett, Newberry, and Yermo Community Services Districts.
3. Make the determinations related to the service review update required by Government Code 56430 as outlined in the special study.
4. Determine that the districts are not in compliance with the following constitutional and statutory requirements and direct LAFCO staff to monitor and update the Commission biannually until all items below are satisfied:

All Districts

- a) Adopt and annually review reserve policies pursuant to Community Services District Law Section 61112.
- b) Forward a copy of the final budget to the County Auditor pursuant to Community Services District Law Section 61110.

- c) Adopt an annual appropriations limit by resolution allowing the expenditure of the proceeds of taxes and review the annual calculation as a part of the annual financial audit, pursuant to Article XIII B of the State Constitution, which is further acknowledged by Community Services District Law Section 61113.

Daggett CSD

- d) Continue to work with the County to address and formalize a lease arrangement and/or title transfer for the Daggett Community Center land and improvement.
- e) Provide LAFCO with a copy of all future water quality information provided to the public, to include water quality control reports, occurrences of contamination, and boil water orders.
- f) Adopt an annual budget that conforms to generally accepted accounting and budgeting procedures by September 1 of each year pursuant to Community Services District Law Section 61110.

Newberry CSD

- g) Recommendation #5 from the 2012-13 Grand Jury Report reads for Newberry CSD to: " Work with the Board, County Auditor, and utilize resources such as the California Special Districts Association to develop a basic accounting manual". The CSD's March 2014 response to the Grand Jury reads, "Due to limited resources and the intrinsic limitations of a part time staff, our audit firm and our own Treasurer, are developing an accounting manual based on generally accepted accounting principles, to be implemented in the immediate future".

In its response to the draft staff report, Newberry CSD identified that such an accounting manual would be a one-page item identifying payment policies. Nonetheless, the district notified in writing to the Grand Jury that it would develop an accounting manual. The Commission requests that the district either update the Grand Jury on this matter or provide the Grand Jury and LAFCO with a copy of the accounting manual regardless of size and content, upon approval.

- 5. Determine that the Commission will not initiate consolidation but that it will continue to monitor the districts for compliance with State Law and County regulations.

BACKGROUND:

The 2012-13 San Bernardino County Grand Jury report investigated the Newberry Community Services District and identified numerous issues and challenges related to governance, accounting and financial management, and internal controls. A single finding from that Grand Jury report related to LAFCO, identified as Recommendation #15, recommending that LAFCO:

“Review suggestions made in its 2009 report and include more robust analysis of governance and reorganization options for the next Service Review of the District, scheduled for 2014.”

At the September 2013 hearing the Commission initiated a special study for the Newberry CSD and the bordering Daggett and Yermo CSDs based upon the recommendations within the 2012-13 Grand Jury report. The Commission’s direction also included the requirement for preparation of a plan for service to address the various government structure options.

COMMISSION WORKSHOP:

At the October 2014 hearing, staff presented the draft staff report in a workshop session for Commission review, input, and direction before conducting a community meeting. At the October hearing, the Commission took no formal action nor did it direct that any changes in the draft report be provided.

A few minor updates have been made to the draft staff report that was presented during the Commission workshop and the community meeting. The updates do not alter the conclusions of the special study and include: staff and board composition and comments on the draft report following the Commission workshop provided by Daggett CSD which have been added as Attachment #5c to the final special study report. The final report is included as Attachment #1 to this report.

COMMUNITY MEETING:

On December 10, staff conducted a community meeting to review the draft special study report with the residents and landowners of the Districts at the Silver Valley High School in Yermo. The registered voters and landowners within the boundaries of the CSDs and the assigned spheres of influence were provided an individual mailed notice of the community meeting. Approximately 150 persons attended the meeting which included community members along with the representatives of the boards of directors and staffs of the districts. A copy of the minutes from the community meeting are included as Attachment #2 to this report. The sentiments from the board members were in opposition to any potential reorganization. A few comments from the general public were voiced which included positions of opposition to or acceptance of the special study report.

SURVEY:

During the community meeting staff outlined its non-scientific survey to gauge the public’s views on the report. The survey was accessible via the internet as well as paper (to allow for mail-in survey responses). As of the date of this report, the survey had 67 respondents with 60 indicating that they read the staff report and 55 indicating that they attended the community meeting. The summarized results of the survey are below and a full copy of the survey results are included as Attachment #3 to this report.

When asked for their preference for continuing streetlighting, park and recreation, and fire response and emergency medical services for their respective communities:

- The landowners or registered voters within Yermo and Daggett CSDs responded with:
 - 54% - Retention of Existing Special Districts
 - 30% - Consolidation with the other districts
 - 8% - Formation of a Joint Powers Authority
 - 8% - No preference on the matter
- The landowners or registered voters within Newberry CSD responded with:
 - 90% - Retention of Existing Special Districts
 - 5% - Consolidation with the other districts
 - 5% - San Bernardino County Fire Protection to provide services to Newberry

Therefore, the sentiments voiced at the community meetings and received via the survey generally indicate the desire for retention of the status quo. Important to note, this survey was not a randomized survey and includes responses of all those seeking to provide an opinion.

CONTINUED MONITORING OF THE DISTRICTS BY LAFCO:

The service review update identifies numerous areas where the districts fail to comply with the State Constitution, State Law, and generally accepted good-governance practices. These issues were outlined in the original service review in 2009 LAFCO and continued through the update process. Staff recommends that the Commission determine that the districts are not in compliance with the following requirements and direct staff to continue to monitor progress to rectify the problems and update the Commission every six months until all of the items below are satisfied.

All Districts

1. Adopt and annually review reserve policies pursuant to Community Services District Law Section 61112.
2. Forward a copy of the final budget to the County Auditor pursuant to Community Services District Law Section 61110.
3. Adopt an annual appropriations limit by resolution authorizing the expenditure of the proceeds of taxes and review the annual calculation as a part of the annual financial audit, pursuant to Article XIII B of the State Constitution, which is further acknowledged by Community Services District Law Section 61113.

As of the date of this report, LAFCO staff has not received any information from Daggett CSD and Yermo CSD on their intent to adopt the appropriations limit.

Newberry CSD has responded to the draft staff report and has indicated that it will begin work on formulating the appropriations limit in the near future.

Daggett CSD

4. Continue to work with the County to address and formalize a lease arrangement or title transfer for the Daggett Community Center.

The Community Center is located on County property at 35277 Afton Street in the southern portion of the District. According to staff at the County Department of Community Development and Housing, there is a lease agreement from 1982 between the County and Daggett CSD for the facility to be on County property. The term of the lease is for 30 years with two 10 year options to renew. However, neither the County Department of Community Development and Housing, County Real Estate Services nor Daggett CSD staff could provide a copy of the lease to substantiate the terms of the agreement.

Included as Attachment #4 to this report is a copy of the recorded grant deed for the parcel and information on the parcel from the County Assessor. Both identify that the parcel is in the name of the County. Further, there is no record with the County Assessor of a transfer of the land or improvements to Daggett CSD or any other party. Therefore, the concerns about the use of the facility, insurance, maintenance, etc. need to be resolved to eliminate the potential financial obligation to the County. LAFCO staff remains available and willing to assist in resolving this issue.

5. Provide LAFCO with a copy of all future water quality information provided to the public, to include water quality control reports, occurrences of contamination, and boil water orders through the initiation of the second cycle North Desert Service Reviews.
6. Adopt an annual budget that conforms to generally accepted accounting and budgeting procedures by September 1 of each year at a noticed hearing pursuant to Community Services District Law Section 61110. Failure to comply with this requirement will necessitate further action by the Commission to resolve the issue.

Newberry CSD

7. Recommendation #5 from the 2012-13 Grand Jury Report reads for Newberry CSD to: " Work with the Board, County Auditor, and utilize resources such as the California Special Districts Association to develop a basic accounting manual". The CSD's March 2014 response to the Grand Jury reads, "Due to limited resources and the intrinsic limitations of a part time staff, our audit firm and our own Treasurer, are developing an accounting manual based on generally accepted accounting principles, to be implemented in the immediate future".

In its response to the draft staff report, Newberry CSD identified that such an accounting manual would be a one-page item identifying payment policies. Nonetheless, the district notified in writing to the Grand Jury that it would develop an accounting manual. LAFCO requests that the district either update the Grand Jury on this matter or provide the Grand Jury and LAFCO with a copy of the accounting manual regardless of size and content, upon approval.

CONTINUING EDUCATION FOR SPECIAL DISTRICTS:

During the review of the question of whether or not to conduct the special study, the Commission directed staff to look into providing for education on the responsibilities and requirements for operating an independent special district. As a part of this special study, staff contacted the Special Districts Risk Management Authority (SDRMA) to conduct local training on board governance. The training held in March 2014 provided access to resources that the districts may not have had otherwise and was attended by 50 representatives.

It is the staff's position that the Commission continues to hold this position regarding on-going educational opportunities. Therefore, it is staff's recommendation that the Commission build upon this educational pursuit and continue to provide governance training for the special districts within the County. Staff will be contacting SDRMA and the California Special Districts Association, and others to be determined, for future educational opportunities. As a part of the FY 2015-16 Budget, staff will present the Commission with an outline of the program proposed along with estimated costs.

ENVIRONMENTAL CONSIDERATIONS:

The Commission's Environmental Consultant, Tom Dodson of Tom Dodson and Associates, has indicated his recommendation that the review of LAFCO 3176 is statutorily exempt from California Environmental Quality Act (CEQA). This recommendation is based on the finding that the special study is not judged to pose any adverse changes to the physical environment. Therefore, the special study is exempt from the requirements of CEQA, as outlined in the State CEQA Guidelines, Section 15061 (b)(3). A copy of Mr. Dodson's analysis is included as Attachment #5 to this report.

OPTIONS FOR FUTURE ACTION:

The Special Study recommends that at a minimum, Daggett CSD and Yermo CSD consolidate; however, the preferable course would be for Daggett CSD, Newberry CSD, and Yermo CSD to consolidate into a single district to achieve long-term benefits for the residents of these communities. The long-term benefit to the community would be through services which are consistent, allowing flexibility in assigning resources, and streamlining governance and management. The Plan for Service shows that a consolidated district

would be fiscally feasible during the five-year forecast period and beyond, achieving the determination of long term sustainability, at a cost at or below that of the status quo.

The question now is who can and would be willing to initiate an application. The options are:

1. The Districts Initiate an Application to Consolidate

It is unlikely that the districts will initiate a consolidation application given their publicly-stated positions. However, should the districts initiate an application to consolidate through adoption of substantially similar resolutions, the Commission would be required to approve the consolidation and could only tinker with the conditions of approval. Per Commission policy, the fees would be reduced should there be a public benefit for the proposal. Further, the proposal would go through the standard protest process:

- Order consolidation without election unless 25% of registered voters or 25% of number of landowners who own at least 25% of the assessed value of the land or more protest
- Order consolidation subject to an election if 25% or more protest
 - within entire territory, or
 - within any district if any district objects by resolution
- Terminate proceedings if 50% or more of the registered voters protest

This would be the smoothest, yet least likely route.

2. Commission Options

There are a number options for Commission action to effectuate the changes anticipated in the Plan for Service. They are:

a. The Commission has the power to initiate consolidation

Historically this commission has been reluctant to move forward to initiate a consolidation, opting instead to try to entice districts or communities to resolve the issues. The written comments provided by Newberry CSD and Daggett CSD for this special study as well as the comments provided by members of the boards of directors at the community meeting identify retention of the status quo as the sole acceptable governance option. Therefore, initiation by the Commission to consolidate would bypass the boards and place the matter for final approval by the registered voters.

Nonetheless, a proposal initiated by the Commission (consistent with the recommendations or conclusions of the special study) and subsequently approved by the Commission would change the protest process as follows:

- (1) If any of the districts objected to the Commission initiated change (filed by resolution), it would change the protest process from the entirety of the reorganization area (standard) to the individual districts. This is significant in that if only one of the districts objected, the election held in that agency would determine the fate of the overall reorganization.
- (2) Pursuant to Section 57113, 10% protest from landowners within any affected agency would require an election. 10% protest of the voters within the area (or district which objected to the proposal) would require an election. If any of the districts had less than 300 voters it would require 25% protest. A 10% protest in Yermo (800 registered voters) or Newberry (930 registered voters) and 25% for Daggett (200 registered voters) would require an election. Given the position of the districts, this would be anticipated.

Therefore, this option has the least chance of success.

b. The Commission can request an affected agency to initiate reorganization

The Commission could request that an affected agency initiate consolidation by submitting an application to LAFCO. The affected agencies are the County of San Bernardino, Mojave Desert Resource Conservation District, Mojave Water Agency, San Bernardino County Fire Protection District, San Bernardino County Flood Control District, County Service Area 40, and County Service Area 70. It would seem that the only agency that would support the possibility of initiating an application to consolidate the districts would be the County through one of its board-governed districts.

Should the County express an interest in an alternative form of governance (i.e. consolidation with or annexation to the San Bernardino County Fire Protection District with removal of the districts' fire protection powers), it would need to initiate by resolution an application along with the required fees and deposits. However, the liability for the proposal is then placed upon this agency.

c. The Commission can forgo action at this time and continue to monitor the districts

As a third option, the Commission can take a wait and see approach - not take any action at this time to initiate consolidation or request any affected agency to initiate consolidation. Since the issuance of the Grand Jury report, Newberry CSD has rectified many of the deficiencies identified and is the only agency that notified LAFCO that it will begin work to formulate and adopt an appropriations limit. It is hoped that a move towards compliance with the State Constitution and State Law can occur for Daggett CSD and Yermo CSD. Therefore, it is the staff's position that an additional time period to evaluate compliance with the State Constitution and State Law be given.

As noted above, staff recommends that the Commission not take any action at this time to initiate consolidation or request any affected agency to initiate consolidation. However, staff recommends that the Commission direct it to continue to monitor the districts for compliance with the California Constitution and State Law with biannual reports on the progress of satisfying the deficiencies presented. During this period, at any time the Commission can initiate consolidation or request an affected agency to initiate consolidation. This route of action is similar to that of the Rim World Recreation and Park District – where the Commission placed conditions upon the district and signaled its intent to move towards dissolution if the district did not rectify its major deficiencies.

ADDITIONAL DETERMINATIONS:

1. As required by State Law notice of the hearing was provided through publication in a newspaper of general circulation within the area, the *Desert Dispatch*. Individual notice was not provided as allowed under Government Code Section 56157 as such mailing would include more than 1,000 individual notices. As outlined in Commission Policy, in-lieu of individual notice the notice of hearing publication was provided through an eighth page legal ad.
2. As required by State law, individual notification was provided to affected and interested agencies, County departments, and those agencies and individuals requesting mailed notice.

CONCLUSION:

The Plan for Service discusses structure options for the community to consider that could potentially achieve a consistent level of service and economies of scale. Given the objectives and analysis for the Plan for Service, LAFCO staff's position is that, at a minimum, Daggett CSD and Yermo CSD consolidate to achieve these results; however, the preferable course would be for Daggett CSD, Newberry CSD, and Yermo CSD to consolidate into a single district. The long-term benefit to the community would be through services which are consistent, allows for flexibility in assigning resources, and streamlines governance and management. The Plan for Service shows that a consolidated district would be fiscally feasible during the five-year forecast period and beyond, would be sustainable at a cost at or below that of the status quo. Even given all this information, the position of the residents and board members which have conveyed their opinions to LAFCO staff is to retain the status quo.

Therefore, it is staff's recommendation that the Commission not take any action at this time to initiate consolidation or request any affected agency to initiate consolidation. However, based upon the issues identified in the original and updated Service Review, staff recommends that the Commission continue to monitor the districts for compliance with the California Constitution and State Law and direct staff to return with biannual reports on the progress of satisfying the deficiencies. However, it is noted that should any of the issues worsen, the Commission may initiate consolidation at any time or request an affected agency to do so.

KRM/MT

Attachments:

1. [Special Study – Final Plan for Service and Service Review to include Attachments](#)
2. [Minutes of the December 10, 2014 Community Meeting](#)
3. [Results from Survey](#)
4. [Recorded Grant Deed and Information from County Assessor related to Daggett Community Center Parcel](#)
5. [Environmental Recommendation from Tom Dodson](#)

**Government Code, Title 1, Division 4,
Article 8 (Vacancies)**

Attachment 3



Code: Select Code Section:



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GOVERNMENT CODE - GOV

TITLE 1. GENERAL [100 - 7914] (Title 1 enacted by Stats. 1943, Ch. 134.)

DIVISION 4. PUBLIC OFFICERS AND EMPLOYEES [1000 - 3599] (Division 4 enacted by Stats. 1943, Ch. 134.)

CHAPTER 4. Resignations and Vacancies [1750 - 1782] (Chapter 4 enacted by Stats. 1943, Ch. 134.)

ARTICLE 2. Vacancies [1770 - 1782] (Article 2 added by Stats. 1943, Ch. 134.)

1770. An office becomes vacant on the happening of any of the following events before the expiration of the term:

- (a) The death of the incumbent.
- (b) An adjudication pursuant to a quo warranto proceeding declaring that the incumbent is physically or mentally incapacitated due to disease, illness, or accident, and that there is reasonable cause to believe that the incumbent will not be able to perform the duties of his or her office for the remainder of his or her term. This subdivision shall not apply to offices created by the California Constitution nor to federal or state legislators.
- (c) (1) His or her resignation, except as provided in paragraph (2).
- (2) In the case of the office of city council member, upon the delivery of a letter of resignation by the resigning council member to the city clerk. The letter of resignation may specify a date on which the resignation will become effective.
- (d) His or her removal from office.
- (e) His or her ceasing to be an inhabitant of the state, or if the office be local and one for which local residence is required by law, of the district, county, or city for which the officer was chosen or appointed, or within which the duties of his or her office are required to be discharged.
- (f) His or her absence from the state without the permission required by law beyond the period allowed by law.
- (g) His or her ceasing to discharge the duties of his or her office for the period of three consecutive months, except when prevented by sickness, or when absent from the state with the permission required by law.
- (h) His or her conviction of a felony or of any offense involving a violation of his or her official duties. An officer shall be deemed to have been convicted under this subdivision when trial court judgment is entered. For purposes of this subdivision, "trial court judgment" means a judgment by the trial court either sentencing the officer or otherwise upholding and implementing the plea, verdict, or finding.
- (i) His or her refusal or neglect to file his or her required oath or bond within the time prescribed.
- (j) The decision of a competent tribunal declaring void his or her election or appointment.
- (k) The making of an order vacating his or her office or declaring the office vacant when the officer fails to furnish an additional or supplemental bond.

(l) His or her commitment to a hospital or sanitarium by a court of competent jurisdiction as a drug addict, dipsomaniac, inebriate, or stimulant addict; but in that event the office shall not be deemed vacant until the order of commitment has become final.

(m) (1) The incumbent is listed in the Excluded Parties List System and all of the following subparagraphs apply:

(A) The office is one that the incumbent holds ex officio, by virtue of holding another office, or as an appointee.

(B) The appointed or ex officio office is on the governing board of a local agency that is, or may reasonably be expected to be, a participant or principal in a covered transaction, pursuant to federal law.

(C) A federal agency head or designee has not granted the incumbent an exception, in writing, permitting the incumbent to participate in a particular covered transaction in which the local agency is, or may reasonably be expected to be, a participant or principal.

(2) For purposes of this subdivision, the following terms have the following meanings:

(A) "Excluded Parties List System" means the list maintained and disseminated by the federal General Services Administration containing names of, and other information about, persons who are debarred, suspended, disqualified, or otherwise excluded from participating in a covered transaction, pursuant to federal law.

(B) "Local agency" includes, but is not limited to, a county, whether general law or chartered, city, whether general law or chartered, city and county, school district, municipal corporation, district, political subdivision, or any board, commission, or agency of one of these entities.

(C) "Federal law" includes, but is not limited to, federal regulations adopted pursuant to Section 2455 of Public Law 103-355 (108 Stat. 3327), Executive Order No. 11738, Executive Order No. 12549, and Executive Order No. 12689.

(3) This subdivision shall not apply to an elective office.

(Amended by Stats. 2014, Ch. 725, Sec. 1. Effective January 1, 2015.)

1770.1. The disqualification from holding office upon conviction, as provided in Section 1021, or the forfeiture of office upon conviction, as provided in subdivision (h) of Section 1770 and Section 3000, is neither stayed by the initiation of an appeal from the conviction, nor set aside by the successful prosecuting of an appeal from the conviction by the person suffering the conviction.

(Added by Stats. 1988, Ch. 283, Sec. 2.)

1770.2. Upon the entry of a plea of guilty, the entry of a plea of nolo contendere, or the rendering of a verdict of a guilty either by a jury or by the court sitting without a jury of a public offense, the conviction of which would invoke the provisions of Section 1021, subdivision (h) of Section 1770, or Section 3000, the person found guilty shall not assume the office for which the person is otherwise qualified or shall be suspended immediately from the office the person then holds. During the time of inability to assume an office or of suspension from office, the person shall not be entitled to receive the emoluments of the office, including, but not limited to, the exercise of the powers of the office, the rights to be seated in the office, and the compensation, including benefits, prescribed for the office.

In the event the trial court sets aside or otherwise nullifies the plea or verdict before the trial court judgment is entered, the inability to assume office or the suspension from holding office shall be lifted, and the person suspended from office shall be restored to office with its emoluments, including those that would have otherwise accrued during the suspension, excluding, however, interest on any monetary payment.

(Added by Stats. 1988, Ch. 283, Sec. 3.)

1771. (a) When an officer is removed, declared insane, or convicted of a felony or offense involving a violation of his or her official duty, or when his or her election or appointment is declared void, the body or person before whom the proceedings are had shall give notice thereof to the officer or body empowered to fill the vacancy.

(b) When an office becomes vacant pursuant to subdivision (m) of Section 1770, the local agency on which the vacancy occurs shall give notice of that vacancy to the officer or body authorized to fill the vacancy.

(Amended by Stats. 2011, Ch. 543, Sec. 3. Effective January 1, 2012.)

1772. When any office becomes vacant and no mode is provided by law for filling the vacancy, the Governor shall fill the vacancy by granting a commission, to expire at the end of the next session of the Legislature or at the next election by the people.

(Enacted by Stats. 1943, Ch. 134.)

1773. When a vacancy occurs in the office of Representative to Congress, or in either house of the Legislature, the Governor shall within 14 calendar days after the occurrence of the vacancy issue a writ of election to fill the vacancy; provided, that when such vacancy occurs in a congressional office after the close of the nomination period in the final year of the term of office, a special election may be held, at the Governor's discretion; and provided, further, that when a vacancy occurs in a legislative office after the close of the nomination period in the final year of the term of office, no special election shall be held.

The Governor shall issue the election proclamation under his hand and the Great Seal of the state, and transmit copies to the board of supervisors of the counties in which the election is to be held.

(Amended by Stats. 1976, Ch. 1155.)

1773.5. In addition to any other applicable provision of law, a vacancy occurs in the office of Representative in Congress in the event of his or her disappearance, as defined in subdivision (c) of Section 10731 of the Elections Code.

(Added by Stats. 2002, Ch. 658, Sec. 5. Effective January 1, 2003.)

1774. (a) When an office, the appointment to which is vested in the Governor and Senate, either becomes vacant or the term of the incumbent thereof expires, the Governor may appoint a person to the office or reappoint the incumbent after the expiration of the term. Until Senate confirmation of the person appointed or reappointed, that person serves at the pleasure of the Governor. If the term of office of an incumbent subject to this section expires, the Governor shall have 60 days after the expiration date to reappoint the incumbent. If the incumbent is not reappointed within the 60-day period, the office shall be deemed to be vacant as of the first day following the end of the 60-day period.

(b) With respect to the appointment or reappointment by the Governor of a person to an office subject to confirmation by the Senate, the Governor shall submit the name of the person appointed, or the name of the incumbent reappointed, and the effective date of the appointment or reappointment to the Senate or, if the Senate is in recess or has adjourned, to the Secretary of the Senate, within 60 days after the person first began performing the duties of the office, or, as to the reappointment of an incumbent, within 90 days after the expiration date of the term. If the Governor does not provide the required notification within 60 days after the person first began performing the duties of the office, or, as to the reappointment of an incumbent to an office after the expiration date of the term, within 90 days after the expiration of the term, the office shall be deemed to be vacant as of the first day immediately following the end of the applicable period.

(c) If the Senate either refuses to confirm, or fails to confirm within 365 days after the day the person first began performing the duties of the office, or, with respect to an incumbent whose appointment to that office previously had been confirmed by the Senate and who is reappointed to that office, within 365 days after the expiration date of the term, the following shall apply:

(1) If the Senate refuses to confirm, the person may continue to serve in that office until 60 days have elapsed since the refusal to confirm or until 365 days have elapsed since the person first began performing the duties of the office, whichever occurs first, or with respect to an incumbent whose appointment to that office previously had been confirmed by the Senate and who is reappointed to that office, until 60 days have elapsed since refusal or until 365 days after the expiration date of the prior term, and the office for which the appointment was made shall be deemed to be vacant as of the first day immediately following the end of the applicable period.

(2) If the Senate fails to confirm within the applicable 365-day period, the person may not continue to serve in that office, and the office for which the appointment was made shall be deemed to be vacant as of the first day immediately following the end of the 365-day period.

(Amended by Stats. 1982, Ch. 801, Sec. 1.)

1774.1. Notwithstanding any other provision of law, whenever the appointment by the Governor of a person to a public office is subject to confirmation by the Senate, and the Senate confirms the appointment within the applicable period described in Section 1774, and the term of office is at the pleasure of the Governor, such confirmation shall be deemed the last act necessary for appointment and the Governor shall not be required to issue another commission to complete the act of appointment.

(Added by Stats. 1978, Ch. 195.)

1774.2. (a) For any person whose term of office expires prior to Senate confirmation and who is reappointed to that office, the time served prior to, as well as subsequent to, the expiration date of the prior term shall be counted for purposes of Section 1774.

(b) For any person who resigns an office prior to Senate confirmation and who is reappointed to that office at any time within 365 days of the resignation, the time served prior to, as well as subsequent to, the resignation shall be counted for purposes of Section 1774.

(c) The subsequent appointment of a person to an office 365 days or more after the date the person last served in that office shall be considered a new appointment, and not a reappointment, for purposes of Section 1774.

(Added by Stats. 1982, Ch. 801, Sec. 2.)

1774.3. With respect to any body or entity having more than one member, including, but not limited to, a board, commission, or committee, "office" includes every position on the body or entity, regardless of qualifications, expiration date of the term, or duties and responsibilities of the position.

(Added by Stats. 1982, Ch. 801, Sec. 3.)

1774.5. Notwithstanding any other provisions of law, no person holding an office which is deemed to be vacant pursuant to Section 1774 may, after the time the office has been deemed to be vacant pursuant to those provisions, continue to discharge the duties of the office, and no warrant shall be drawn by the Controller for the payment of any salary or expenses of that person attributable to the discharge of the duties of the office after that time. In addition, the Governor shall not reappoint the person to the same office for a period of 365 days after the time the office has been deemed to be vacant.

(Amended by Stats. 1982, Ch. 801, Sec. 4.)

1774.7. (a) Sections 1774, 1774.2, 1774.3, and 1774.5 shall apply to any person appointed, or reappointed, prior to, or on or after, January 1, 1981, except as follows:

(1) With respect to any person appointed prior to January 1, 1981, the 365-day period specified in Section 1774 shall not commence to run until January 1, 1981.

(2) With respect to the term of office of an incumbent which expires during the period from the first Monday after January 1 of the year a newly elected Governor takes office for the first time, until January 31 of that year, inclusive, the 60-day period specified in subdivision (a) of Section 1774 and the 90-day period specified in subdivision (b) of Section 1774 shall not commence to run until February 1 of that year.

(b) It is the intent of the Legislature that Sections 1774, 1774.2, 1774.3, and 1774.5 shall prevail over any contrary special or general provision of this code, any other code, or any uncodified statute of this state. These sections shall be construed as superseded by another statute only if that statute specifically provides that these sections shall not apply and expressly refers to the numbers of the sections superseded.

(Amended by Stats. 1986, Ch. 477, Sec. 1.)

1775. Whenever there is a vacancy in the office of the Superintendent of Public Instruction, the Lieutenant Governor, Secretary of State, Controller, Treasurer, or Attorney General, or on the State Board of Equalization, the Governor shall nominate a person to fill the vacancy who shall take office upon confirmation by a majority of the membership of the Senate and a majority of the membership of the Assembly and who

shall hold office for the balance of the unexpired term. In the event the nominee is neither confirmed nor refused confirmation by both the Senate and the Assembly within 90 days of the submission of the nomination, the nominee shall take office as if he or she had been confirmed by a majority of the Senate and Assembly; provided, that if such 90-day period ends during a recess of the Legislature, the period shall be extended until the sixth day following the day on which the Legislature reconvenes.

After a vacancy has occurred in an office specified in this section and prior to the time such vacancy is filled as provided in this section, the chief deputy to the above constitutional officers shall discharge the duties of the office.

(Amended by Stats. 1977, Ch. 96.)

1776. Except as otherwise provided in the Constitution, when a person is appointed by the Governor, or by the Governor by and with the advice and consent of the Senate, either to fill a vacancy in any office or to fill an office when the appointment is not made until after the expiration of the preceding term, the appointee holds office only for the balance of the unexpired term as provided by the law creating the office.

(Enacted by Stats. 1943, Ch. 134.)

1777. After filing his official oath and bond, any person elected or appointed to fill a vacancy possesses all the rights and powers and is subject to all the liabilities, duties, and obligations of the officer whose vacancy he fills.

(Enacted by Stats. 1943, Ch. 134.)

1778. A vacancy in any appointive office on the governing board of a special district shall be filled by appointment by the board of supervisors of the county in which the larger portion of the district is located unless, by the terms of the act under which the district is formed, another method of appointment is expressly provided.

(Amended by Stats. 1974, Ch. 1271.)

1779. A vacancy on any appointed governing board of a special district shall be filled by the appointing authority within 90 days immediately subsequent to its occurrence. If no action is taken for a period of 90 days immediately subsequent to a vacancy on such a board, the board of supervisors of the county in which the larger portion of the district is located shall have authority to fill the vacancy by appointment.

(Amended by Stats. 1973, Ch. 934.)

1780. (a) Notwithstanding any other provision of law, a vacancy in any elective office on the governing board of a special district, other than those specified in Section 1781, shall be filled pursuant to this section.

(b) The district shall notify the county elections official of the vacancy no later than 15 days after either the date on which the district board is notified of the vacancy or the effective date of the vacancy, whichever is later.

(c) The remaining members of the district board may fill the vacancy either by appointment pursuant to subdivision (d) or by calling an election pursuant to subdivision (e).

(d) (1) The remaining members of the district board shall make the appointment pursuant to this subdivision within 60 days after either the date on which the district board is notified of the vacancy or the effective date of the vacancy, whichever is later. The district shall post a notice of the vacancy in three or more conspicuous places in the district at least 15 days before the district board makes the appointment. The district shall notify the county elections official of the appointment no later than 15 days after the appointment.

(2) If the vacancy occurs in the first half of a term of office and at least 130 days prior to the next general district election, the person appointed to fill the vacancy shall hold office until the next general district election that is scheduled 130 or more days after the date the district board is notified of the vacancy, and thereafter until the person who is elected at that election to fill the vacancy has been qualified. The person elected to fill the vacancy shall hold office for the unexpired balance of the term of office.

(3) If the vacancy occurs in the first half of a term of office, but less than 130 days prior to the next general

district election, or if the vacancy occurs in the second half of a term of office, the person appointed to fill the vacancy shall fill the balance of the unexpired term of office.

(e) (1) In lieu of making an appointment the remaining members of the board may within 60 days of the date the district board is notified of the vacancy or the effective date of the vacancy, whichever is later, call an election to fill the vacancy.

(2) The election called pursuant to this subdivision shall be held on the next established election date provided in Chapter 1 (commencing with Section 1000) of Division 1 of the Elections Code that is 130 or more days after the date the district board calls the election.

(f) (1) If the vacancy is not filled by the district board by appointment, or if the district board has not called for an election within 60 days of the date the district board is notified of the vacancy or the effective date of the vacancy, whichever is later, then the city council of the city in which the district is wholly located, or if the district is not wholly located within a city, the board of supervisors of the county representing the larger portion of the district area in which the election to fill the vacancy will be held, may appoint a person to fill the vacancy within 90 days of the date the district board is notified of the vacancy or the effective date of the vacancy, whichever is later, or the city council or board of supervisors may order the district to call an election to fill the vacancy.

(2) The election called pursuant to this subdivision shall be held on the next established election date provided in Chapter 1 (commencing with Section 1000) of Division 1 of the Elections Code that is 130 or more days after the date the city council or board of supervisors calls the election.

(g) (1) If within 90 days of the date the district board is notified of the vacancy or the effective date of the vacancy, whichever is later, the remaining members of the district board or the appropriate board of supervisors or city council have not filled the vacancy and no election has been called for, then the district board shall call an election to fill the vacancy.

(2) The election called pursuant to this subdivision shall be held on the next established election date provided in Chapter 1 (commencing with Section 1000) of Division 1 of the Elections Code that is 130 or more days after the date the district board calls the election.

(h) (1) Notwithstanding any other provision of this section, if the number of remaining members of the district board falls below a quorum, then at the request of the district secretary or a remaining member of the district board, the appropriate board of supervisors or the city council shall promptly appoint a person to fill the vacancy, or may call an election to fill the vacancy.

(2) The board of supervisors or the city council shall only fill enough vacancies by appointment or by election to provide the district board with a quorum.

(3) If the vacancy occurs in the first half of a term of office and at least 130 days prior to the next general district election, the person appointed to fill the vacancy shall hold the office until the next general district election that is scheduled 130 or more days after the date the district board is notified of the vacancy, and thereafter until the person who is elected at that election to fill the vacancy has been qualified. The person elected to fill the vacancy shall hold office for the unexpired balance of the term of office.

(4) If the vacancy occurs in the first half of a term of office, but less than 130 days prior to the next general district election, or if the vacancy occurs in the second half of a term of office, the person appointed to fill the vacancy shall fill the balance of the unexpired term of office.

(5) The election called pursuant to this subdivision shall be held on the next established election date provided in Chapter 1 (commencing with Section 1000) of Division 1 of the Elections Code that is held 130 or more days after the date the city council or board of supervisors calls the election.

(Amended by Stats. 2007, Ch. 343, Sec. 4. Effective January 1, 2008.)

1781. The provisions of Section 1780 shall not apply to a school district, a district organized pursuant to Division 6 (commencing with Section 11501) of the Public Utilities Code, or a district subject to the provisions of Chapter 5 (commencing with Section 22825) of Part 5 of Division 11 of the Water Code.

(Added by Stats. 1975, Ch. 1059.)

1782.

Notwithstanding any other provision of the law, whenever a vacancy occurs on a state board or commission, or a seat on a board or commission is abolished by statute, the board or commission shall notify the appropriate appointing authority of this occurrence and the appropriate appointing authority shall notify the person occupying the vacated or abolished seat that the person may no longer serve on the board or commission. Except as provided in Section 1774, the person occupying the vacated or abolished seat on the board or commission shall continue to serve until notified by the appropriate appointing authority.

(Added by Stats. 1981, Ch. 438, Sec. 1.)

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: MARCH 9, 2016

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #6: Continuation of Status Report on LAFCO 3189 -
Special Study of the Morongo Valley Community Services District

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of the status report and file.
2. Set the next status report for the August 2016 hearing.

BACKGROUND:

Item 10 on the February 17 hearing was the Status Report Update for the Morongo Valley Community Services District special study (LAFCO 3189). Due to time constraints at that hearing, the item was continued to the March 16, 2016 hearing. The contents of the report and its attachments are included below as originally provided for the February hearing as no new information has been received by LAFCO staff in the interim.

At the July 2015 hearing, the Commission completed the special study of the Morongo Valley Community Services District ("District"). The special study was conducted at the request of a district board member due to financial and governing concerns and was narrow in focus – determining the financial sustainability of the district to perform its authorized range of services, most specifically fire protection and emergency response. This is the first scheduled status update for the District related to the special study findings and determinations. Unfortunately, LAFCO's monitoring of the District now includes reviewing its immediate sustainability.

At the conclusion of the special study, the District took painful and significant measures and received additional State reimbursement revenue to barely break-even for FY 2014-15. As a part of the special study LAFCO staff provided a forecast for the next five fiscal years

(through 2020-21). The forecast did not show even nominal annual revenue gains – basically a break-even scenario. The forecast assumes that funding, equipment, and personnel remain equal and constant. Any deviation would force the razor-thin surplus to evaporate.

Specifically, LAFCO identified four variables which could result in budget challenges for the district, ranging from severe to moderate.

1. Replacement of Current Fire Truck. The district fire truck is a 2001 model with roughly 100,000 miles, and the backup is a 1992 truck. A complete replacement would cost roughly \$500,000.
2. Wild land Fire Truck is Recalled. Should the federal program cease, the recall of the brush engine would remove a revenue source as well as remove a backup fire truck.
3. Replacement of Current General Manager. The current general manager has over the past two years voluntarily decreased her salary by roughly \$15,000 in order to balance the budgets. Should the need arise to fill the position, returning the salary to the previous figure may be necessary to recruit a general manager with the skill level required of the position.
4. Any other Major Expense. There is little to no room for any other major expense such as a new roof or replacement of the fire admin vehicle. Due to the age of the facilities it is a matter of when, not if, major expenses will occur.

In the conclusion to the report, LAFCO staff stated, “Should the district desire to increase the levels of its current services or expand the range of services, additional revenue sources would need to be obtained.”

As a result of the special study, the Commission directed the staff to:

- Continue to monitor the district's financial position and sustainability by requesting the district to provide LAFCO with its adopted annual budget, mid-year financial report, and financial statements for the next three years, and
- Monitor and update the Commission biannually for the next three years regarding the district's financial position and sustainability.

The following provides a narrative discussion of LAFCO staff's ongoing monitoring of the District.

FY 2014-15 Audit and Fiscal Indicators

District staff provided LAFCO with its FY 2014-15 year-end estimates for the July special study. Through the special study, the Commission is aware of the financial status of the District up to that point. The following provides a review of the District's financial position from its audited financial statements moving forward.

Fund Balance

The District's fund balance has decreased for the past three years – by a total of 42.4%. However, the most recent fiscal year experienced a lesser decrease – of 1.6%. As identified in the July 2015 special study, the District experienced a back-log of maintenance, insurance and employment claims, and was required to use unbudgeted monies to rectify the proper closing of grants and OSHA issues. During 2014-15, the District implemented measures to cut expenditures which tempered the annual decrease in fund balance.

FUND BALANCE						
	2010-11	2011-12	2012-13	2013-14	2014-15	
Fund Balance:						
Non spendable	66,270	65,902	1,758	1,669	2,400	
Restricted	12,490	15,142	11,348	13,569	26,930	
Unassigned (Unreserved)	463,684	484,303	456,463	341,941	322,177	
Total Fund Balances	\$ 542,444	\$ 565,347	\$ 469,569	\$ 357,179	\$ 351,507	
Revenues:						
Property tax	383,400	366,739	365,836	363,061	373,931	
Fire assessment	280,605	286,528	292,076	313,913	300,825	
Grant income	186,044	31,971	13,951	11,516	18,184	
Fire service	4,992	1,542	9,222	25,482	113,284	
Park revenue	4,992	3,332	4,279	9,398	7,113	
Other	3,463	22,289	8,993	15,293	10,819	
Total Revenues	\$ 863,496	\$ 712,401	\$ 694,357	\$ 738,663	\$ 824,156	
Expenditures:						
General government	86,016					
Fire operations	504,787	605,710	657,767	734,367	742,443	
Park & recreation	247,417	79,714	77,435	106,084	76,781	
Streetlights	4,116	4,074	5,645	4,786	4,788	
Debt service	24,627	-	1,452	5,816	5,816	
Total Expenditures	\$ 866,963	\$ 689,498	\$ 742,299	\$ 851,053	\$ 829,828	
Revenues less Expenditures:	\$ (3,467)	\$ 22,903	\$ (47,942)	\$ (112,390)	\$ (5,672)	
Fund Balances, Beginning	545,911	542,444	517,511	\$ 469,569	\$ 357,179	
Fund Balances, Ending	\$ 542,444	\$ 565,347	\$ 469,569	\$ 357,179	\$ 351,507	
Increase from prior year	-0.6%	4.2%	-16.9%	-23.9%	-1.6%	
Sources: Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance						
*Notes: (1) FY 2012-13 Fund Balance had adjustment to Beginning Balance of \$47,836						

Focusing on the past three audited years, the breakdown of Revenues and Expenditures by activity (fire protection and emergency response, park and recreation, and streetlights)

clearly identifies that the district's fire protection and emergency response function operates in the red. While this was known during the special study, the most recent audit solidifies this circumstance, as shown below.

FY 2012-13		Fire	Park & Rec	Streetlights	Total
Revenues:					
	Property tax	325,437	34,754	5,645	365,836
	Fire assessment	292,076	-	-	292,076
	Other	24,745	11,700	-	36,445
	Total Revenues	\$ 642,258	\$ 46,454	\$ 5,645	\$ 694,357
Expenditures:					
	Salaries & wages	412,277	27,235	840	440,352
	Benefits	57,448	10,775	-	68,223
	Operations expense	188,040	39,425	4,805	232,270
	Debt service	1,454	-	-	1,454
	Total Expenditures	\$ 659,219	\$ 77,435	\$ 5,645	\$ 742,299
Revenues less Expenditures		\$ (16,961)	\$ (30,981)	\$ -	\$ (47,942)
FY 2013-14		Fire	Park & Rec	Streetlights	Total
Revenues:					
	Property tax	266,673	91,602	4,786	363,061
	Fire assessment	313,913	-	-	313,913
	Other	47,207	14,482	-	61,689
	Total Revenues	\$ 627,793	\$ 106,084	\$ 4,786	\$ 738,663
Expenditures:					
	Salaries & wages	441,253	35,268	364	476,885
	Benefits	73,745	10,325	64	84,134
	Operations expense	219,369	60,491	4,358	284,218
	Debt service	5,816	-	-	5,816
	Total Expenditures	\$ 740,183	\$ 106,084	\$ 4,786	\$ 851,053
Revenues less Expenditures		\$ (112,390)	\$ -	\$ -	\$ (112,390)
FY 2014-15		Fire	Park & Rec	Streetlights	Total
Revenues:					
	Property tax	291,801	77,286	4,844	373,931
	Fire assessment	300,825	-	-	300,825
	Other	138,273	11,127	-	149,400
	Total Revenues	\$ 730,899	\$ 88,413	\$ 4,844	\$ 824,156
Expenditures:					
	Salaries & wages	472,925	35,549	272	508,746
	Benefits	74,047	6,060	33	80,140
	Operations expense	195,471	35,172	4,483	235,126
	Debt service	5,816	-	-	5,816
	Total Expenditures	\$ 748,259	\$ 76,781	\$ 4,788	\$ 829,828
Revenues less Expenditures		\$ (17,360)	\$ 11,632	\$ 56	\$ (5,672)

Assessed Value, Property Tax, and Assessments

The special study identified how assessed value of the District had declined for five consecutive years which led to a corresponding decline in property tax revenues received. On a positive note, the assessed value has increased for two consecutive years. However, the fire assessment is not tied to assessed value; yet conversely enjoyed annual gains until 2014-15, which interestingly experienced a decrease.

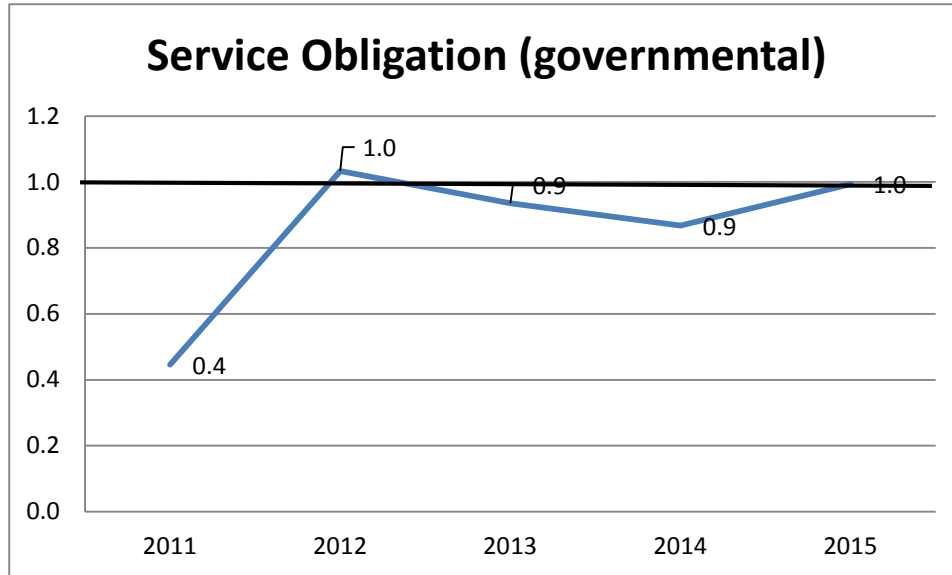
Year	Assessed Value		Tax Received		Assessment Received	
	Valuation	% change	Total Tax	% change	Total	% change
2007-08	\$ 219,980,152	16.8%	\$ 438,520	15.2%	\$ 214,573	7.4%
2008-09	\$ 226,288,922	2.9%	\$ 439,874	0.3%	\$ 263,798	22.9%
2009-10	\$ 211,888,756	-6.4%	\$ 420,263	-4.5%	\$ 269,762	2.3%
2010-11	\$ 194,095,885	-8.4%	\$ 383,400	-8.8%	\$ 280,605	4.0%
2011-12	\$ 186,380,022	-4.0%	\$ 366,739	-4.3%	\$ 286,528	2.1%
2012-13	\$ 184,029,593	-1.3%	\$ 365,836	-0.2%	\$ 292,076	1.9%
2013-14	\$ 179,691,565	-2.4%	\$ 363,061	-0.8%	\$ 313,913	7.5%
2014-15	\$ 188,970,893	5.2%	\$ 373,931	3.0%	\$ 300,825	-4.2%
2015-16	\$ 201,126,374	6.4%				
sources:						
County of San Bernardino, Agency Net Valuations						
Morongo Valley CSD audits						

Fiscal Indicators

Currently, LAFCO's Fiscal Indicators program includes audited data through FY 2013-14. LAFCO staff has added FY 2014-2015 to the District's Service Obligation and Liquidity indicators.

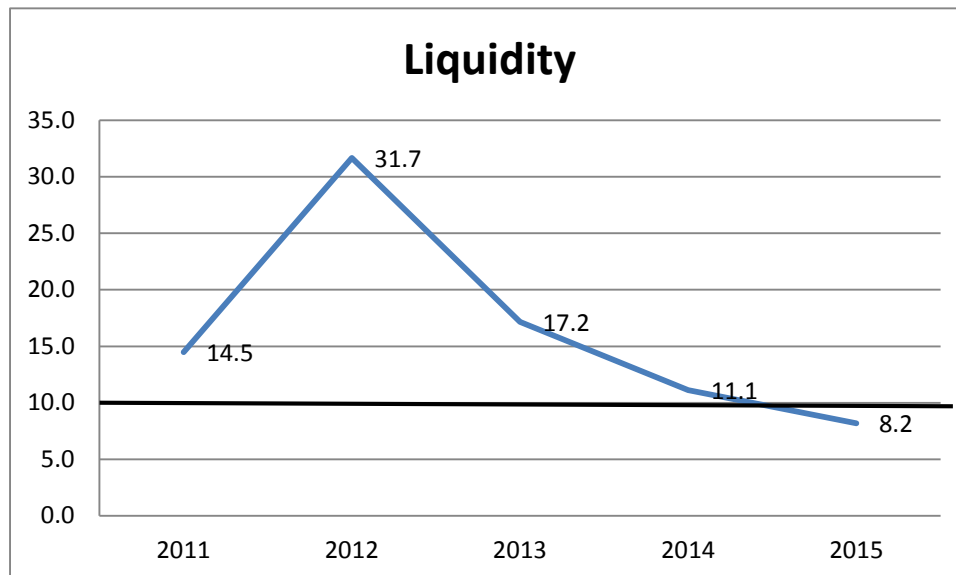
Service Obligation

Service Obligation measures whether or not a government's annual revenues were sufficient to pay for annual operations. In most cases, as the percentage of general revenues decreases, an agency loses its ability to respond to changing conditions and to citizens' needs and demands. It is calculated by dividing operating expenditures by operating revenues. A ratio of one or higher indicates that a government lived within its annual revenues. On the whole, the District is at or just below the break-even level.



Liquidity

Liquidity measures a government's ability to meet its short-term obligations. In other words, if a short-term obligation became due would the agency be able to satisfy that obligation with cash. It is calculated by dividing current liabilities by cash and investments. The higher the ratio suggests a government is better able to meet its short-term obligations. For agencies not meeting its service obligations (see previous indicator), the literature suggests a ratio of ten or above. As shown, Liquidity is slipping into territory where satisfying short-term obligations becomes a challenge.



2015-16 MID-YEAR

At first glance, the mid-year financial chart (shown below) does not reveal major concerns since revenues exceed expenditures. However, the narrative provided by the District for the second half of the year reveals major concerns for the District and LAFCO staff.

For the park and recreation services, the chart below identifies that 75% of expenditure authority has been incurred to date (roughly \$8,000 above the mid-year benchmark). The District's documents identify roughly \$2,500 in plumbing costs at the park. Additionally, the lease agreement with the County in October 2015 for continued use of Mojave Park (located on the Big Morongo Canyon Preserve Area) resulted in an unbudgeted expense of \$2,077.

As for fire, the medic engine incurred an unbudgeted expense – a repair to its engine of roughly \$25,000.

MORONGO VALLEY CSD						
			2013-14	2014-15	2015-16	2015-16
			Actual	Actual	Adopted Budget	Thru Mid-Year
						Percent Mid-Year
Revenues:						
Property tax			363,061	373,931	369,483	182,732 49%
Fire assessment			313,913	300,825	302,932	150,497 50%
Grant income			11,517	18,184	10,000	119 1%
Fire service						
Cost Recovery			1,818	4,003	4,000	1,768 44%
OES Reimbursement			22,270	94,769	22,000	126,829 576%
Fire Inspections			1,394	2,494	2,400	408 17%
Donations			9,792	4,161	-	2,273
Other			-	18,676	-	66
Total Fire Service			35,274	124,103	28,400	131,344 462%
Park revenue			9,398	5,703	5,000	3,114 62%
Other			5,500	1,410	3,334	5,942 178%
Total Revenues			\$ 738,663	\$ 824,156	\$ 719,149	\$ 473,748 66%
Expenditures:						
General government			189,608	148,133	117,175	63,238 54%
Fire operations						
Operating Supplies			15,812	12,359	11,650	5,313 46%
Training & Safety			35,592	19,686	17,000	4,338 26%
Administration			41,001	29,837	28,650	17,031 59%
Apparatus			64,253	73,167	57,350	54,993 96%
Compensation			448,410	500,459	446,458	297,507 67%
Total Fire Operations			605,068	635,508	561,108	379,182 68%
Park & recreation			46,520	36,205	31,050	23,439 75%
Streetlights			4,039	4,166	4,000	2,075 52%
Debt service			5,818	5,816	5,816	2,908 50%
Total Expenditures			\$ 851,053	\$ 829,828	\$ 719,149	\$ 470,842 65%
Revenues less Expenditures:			\$ (112,390)	\$ (5,672)	\$ -	\$ 2,906
Fund Balances, Beginning			469,569	357,179	351,507	-
Fund Balances, Ending			\$ 357,179	\$ 351,507	\$ 351,507	\$ 2,906
Change from prior year			-23.9%	-1.6%		

However, additional mid-year materials included by the District identify that payroll for fire personnel has dramatically increased during the past months. According to District staff, while the Chief was on medical leave his salary was partially paid by Workers' Compensation, which reduced the amount that the District paid to its highest earner. However, this reduction in staffing has created the unintended consequence of more overtime, which in the end is resulting in higher payroll.

The figure below shows the projections provided by the District for its fire staffing for the second half of the fiscal year. As shown, at current levels, payroll during the second half will exceed its budget by roughly \$74,000, without any offsetting increase in revenues.

	Fire Payroll - 2nd Half		
	Budget	Projected	(Over) Under
paramedic	\$ 52,728	\$ 61,893	\$ (9,165)
engineer	\$ 54,624	\$ 59,475	\$ (4,851)
captains	\$ 23,346	\$ 74,217	\$ (50,871)
chief	\$ 26,502	\$ 28,704	\$ (2,202)
taxes	\$ 14,484	\$ 21,372	\$ (6,888)
TOTAL	\$ 171,684	\$ 245,661	\$ (73,977)
reserves	\$ 9,102	\$ 7,800	\$ 1,302
Notes:			
Chief's salary partially paid by Workers' Comp in first half			

Additionally, the general manager has voluntarily reduced the compensation of her position more than once. These actions are not reflective of a well-funded agency and cannot be relied upon to achieve a sustainable budget.

Unfortunately, LAFCO's monitoring of the District now shifts to questions on its immediate sustainability.

Special Tax Election

The special study concluded that,

"The district should consider placing a ballot measure to convert its current benefit assessment into a special tax with an annual inflation factor as a special tax would not be subject to an annual engineering report and annual exposure to being challenged. Further, an election to convert the assessment to a special tax could request an increased tax in order to augment fire protection and paramedic service. The District indicates that consideration of any ballot measure would not take place until all the mechanisms are in place to ensure that it annually operates with a sustainable budget and properly governs within that budget."

At its January 2016 hearing, the District voted 4-1 to call an election on a proposed \$350 annual parcel tax related to its fire protection and emergency response services (District's resolution included as Attachment #4). The tax proposal will be placed on the June 7 election and will require two-thirds approval to pass. If successful, the \$350 special tax would replace the current assessment (which would be a substantial increase). If unsuccessful, the current assessment would remain. The measure, as shown in the District's Resolution No. 1-1-2016, reads as follows:

“Shall the Morongo Valley Fire and Rescue Assessment be converted into a special parcel tax of \$350 per year, adjusted for inflation, to use in funding fire protection and paramedic services provided by the Morongo Valley Community Services District?”

Of note, the measure does not include a cap on the annual adjustment for inflation, such as 3% or 5%, which is a concern for such measures.

CONCLUSION:

After what appeared to be a sustainable adopted budget, coupled with a positive mid-year spreadsheet, the District predicts a second half that will result in overages of \$74,000 just for fire staffing. If all overtime were to be cut, then the projection shows an overage of \$23,000. Therefore, the District resumes its never ending discussion about what level of fire service is desired in the community - how to pay for it or how to lower costs. Unfortunately, LAFCO's monitoring of the District now shifts to reviewing its immediate sustainability rather than the question of long term sustainability.

The budget remains challenged, and as a result the delivery of its range of services is challenged. If any additional major expense were to occur, such as further repairs to its 2001 truck, then service sustainability for the residents and travelers on Highway 62 would be severely challenged.

To address these sustainability concerns, as stated in the special study, the Commission may choose to initiate a sphere of influence review and a full service review. Such a review would include analysis of designating a zero sphere of influence signaling that a future change of organization take place. By designating a zero sphere, the Commission's desire would be that an overlying or adjacent agency would potentially assume the district's services. These could include:

- San Bernardino County Fire Protection District and its South Desert Service Zone (adjacent - fire protection and emergency medical response)
- County Service Area 70 (overlying - park and recreation, streetlights), or the District could maintain these services with fire being reorganized (as shown above)

Given the issues identified in this report, staff recommends that the Commission await the outcome of the June 7 election where the special tax measure will be decided by the voters. Should the special tax be approved, this would provide a stable source of revenue for the District's fire protection and emergency medical services. Until the next scheduled update in August 2016, the results of the special tax election will dictate the coming year's budget as well as the possible direction of the community's fire protection and emergency services. The next update will revise the five-year financial projections identified in the special study based upon the District's unaudited year-end figures as well the results of the special tax election.

KRM/MT

Attachments:

1. FY 2014-15 Financial Statements
2. FY 2015-16 Mid-Year Spreadsheets
3. July 2015 Special Study – Staff report
4. Morongo Valley CSD Resolution Calling for Election

**FY 2014-15
Financial Statements**

Attachment 1

MORONGO VALLEY COMMUNITY SERVICES DISTRICT



FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2015

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San Bernardino County

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& Company, LLP
Certified Public Accountants

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	i - viii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	5
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	6
Reconciliation of Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities	7
Notes to Financial Statements	8-14
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	15
SUPPLEMENTARY INFORMATION	
Combining Statement of Revenues, Expenditures, and Changes In Fund Balance – Governmental Funds	16
Calculation of Appropriation Spending Limit (Prop. 4 “Gann Limit”)	17
NOTES TO REQUIRED SUPPLEMENTARY AND SUPPLEMENTARY INFORMATION	18



Smith Marion & Company, LLP • Certified Public Accountants
Grand Terrace Office • 22365 Barton Road, Suite 108 • Grand Terrace, CA 92313 • (909) 825-6600

Board of Directors
Morongo Valley Community Services District
Morongo Valley, CA

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of Morongo Valley Community Services District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Morongo Valley Community Services District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Morongo Valley Community Services District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, generally accepted government auditing standards when applicable and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Morongo Valley Community Services District, as of June 30, 2015, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages i - viii and the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morongo Valley Community Services District's basic financial statements. The Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds and Calculation of Appropriation Spending Limit (Prop. 4 "Gann Limit") are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds and Calculation of Appropriation Spending Limit (Prop. 4 "Gann Limit") are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Revenues, Expenditures, and Changes In Fund Balance – Governmental Funds and Calculation of Appropriation Spending Limit (Prop. 4 "Gann Limit") are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



October 26, 2015
Grand Terrace, CA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Morongo Valley Community Services District is a non-enterprise independent special district encompassing a twenty-four square mile rugged natural desert landscape providing a rural lifestyle highly valued by residents. In 1958 concerned local citizens petitioned the San Bernardino County Board of Supervisors and formed a Community Services District specifically to control fire and emergency medical services for the community.

Formation resulted in acquiring control of streetlights, parks and libraries as well as fire services, and though fire services have transitioned from volunteer to a combined agency utilizing career paid staff and reserve firefighters; the community as a whole still is largely dependent on a core group of active volunteers serving to assist in maintenance, administrative and event-driven needs for its residents and visitors.

As management of the Morongo Valley Community Services District and Fire Department (the District), we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the fiscal year which ended on June 30, 2015.

Financial Highlights:

- As can be viewed from the Government-Wide Financial Reports, assets of the Morongo Valley Community Services District exceeded its liabilities at the close of the 2014-2015 fiscal year by \$821,741 (Total Net Position/Net Position of Governmental Activities). Because of unearned revenues and short term debt, the District's liabilities were \$50,865, and when added to the net assets, resulted in Total Assets of \$872,606. Unearned revenues are future payments due from the County of San Bernardino or the State Office of Emergency Services for assistance provided by the District for regional emergency response services.
- The District's governmental funds total revenues over the fiscal year were \$824,156 of which tax and property assessments provided a combined \$674,756 and other sources of income provided the balance. Total Expenditures over the same period were \$829,828 or \$5,672 in excess of total expenses. This required transfers from the District's Money Market Savings Account to offset expenditures with a corollary reduction in the District's Net Position.
- While the District's beginning Fund Balance at the start of the fiscal year was \$357,179 the Fund Balance at close of the fiscal year was \$351,507 reflecting the \$5,672 excess expense noted in the above statement.
- There were many factors contributing to the decrease in fund balance this year. The decrease for the 2014-2015 year in comparison to the prior year is significantly less. One of the largest factors is due to the General Manager accepting a significant pay decrease; from \$50,000 down to \$36,000 with no added benefits. The District was able to send strike teams to fires in other areas which generated over \$91,000 in revenue. On the CSD side, we closely watched all expenses and made a significant effort to cut costs as much as possible. The main contributor to the decrease in the fund balance is due to expenses on old fire equipment. We had a challenging year with many expenses relating to the maintenance of the older fire equipment.

Overview of the Financial Statements

A discussion and analysis is intended to serve as an introduction to the District's basic financial statements and to explain what the statements reflect. These financial statements are comprised of three major components: **Government-wide financial statements**, various **Fund financial statements** and **Notes to the financial statements** themselves. This report provides required supplementary information intended to clarify these statements as well.

Government-wide financial statements. The statements are designed to provide readers with a broad overview of the District's finances in a manner similar to both private-sector businesses and other public governmental accounting agencies. As such, the "Business Model" statement and the "Governmental Model" statement will both reflect balanced statements; though each model will reflect District finances in a different manner. An "audit document" will reflect a Statement of Net Position which may show the net value of Capital Assets; whereas in the Governmental Funds Model Balance Sheet, Capital assets used in governmental activities are not considered as financial resources, and therefore are not reported in the funds on that particular statement.

A **statement of net position**, presents information on all of the District's assets and liabilities, with the difference between the assets and liabilities reported as **net position**. Over time, increases or decreases in the net assets serves as a useful indicator of whether the financial position of the District is either improving or deteriorating. Though it does not necessarily indicate why the financial position is moving in one direction or another.

A **statement of activities** on the other hand presents information showing how the District's net position changed during the most recent fiscal year and also reflects primary governmental activities such as Fire Operations, Parks and Recreation and Street Lights. In this report, revenues and expenses are provided for some items which shall only result in cash flows in future fiscal periods; such as uncollected taxes or grants, contributions and other income which may be due at the close of the fiscal period.

The governmental activities of the District include the administration and management of all District activities for the Morongo Valley Community Services District, Morongo Valley, California. However, as required by the California State Controller's Office, the expenses of Administration and Management are not broken out separately, but rather incorporated, or wrapped into the costs to provide the services which are afforded to the community.

The **government-wide financial statements** can be found on pages 3-4 of the annual fiscal year- end audit report.

Fund financial statements. A "fund" is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities of objectives. The Morongo Valley CSD, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are considered to be governmental funds.

Governmental funds. Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the *near-term inflows and outflows of spendable resources, as well as on balances of spendable resources* available at the end of the

fiscal year. This information is frequently useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than the government-wide financial statements, they can be used to compare the information presented for *governmental funds* with similar information presented for the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains four individual governmental funds reflected as Fire Operations, Parks and Recreation, Street Lights and Debt Service. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for these which are considered to be major funds. These statements can be found on pages 5-7 of the annual fiscal year-end audit report.

Notes to the Financial Statements. The notes provide additional information considered essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes can be found on pages 8-14 of the annual fiscal year-end audit report.

Other information. In addition to the basic financial statements and accompanying notes, the audit report also presents certain *required supplementary information*. The District adopts an annual appropriated budget for its general operations and any special revenue funds. A budgetary comparison statement is provided for these operations and special revenue funds to demonstrate compliance with this budgeting process. The *required supplementary information* can be found on pages 15 of the annual fiscal year-end audit report.

Additionally, State government code requirements provide that all local governmental agencies are required to perform a calculation of their **Appropriation Spending Limits** each year utilizing a formula which takes into account any population changes over the prior year along with changes in the cost of living for the region in which the local agency exists. This limit places a cap on the amount that a local agency may spend as financed from the proceeds of taxes. The calculation of the **appropriation spending limit** is reflected on page 17 of the annual fiscal year-end audit report.

MORONGO VALLEY COMMUNITY SERVICES DISTRICT

2015

Table 1
STATEMENT OF NET POSITION

	2015	2014
Current and other assets	\$ 432,428	\$ 428,361
Capital assets	440,178	466,321
Total Assets	<u>872,606</u>	<u>894,682</u>
Deferred Outflows of Resources	-	-
Current liabilities	40,971	30,231
Long-term liabilities	9,894	15,336
Total Liabilities	<u>50,865</u>	<u>45,567</u>
Deferred Inflows of Resources	-	-
Net Position:		
Net investment in capital assets	440,178	466,321
Restricted	26,930	13,569
Unrestricted	<u>354,633</u>	<u>369,225</u>
Total Net Position	<u>\$ 821,741</u>	<u>\$ 849,115</u>

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. For the Morongo Valley CSD, total assets were reflected at \$872,606 and total liabilities at \$50,865 at the close of the fiscal year.

The largest portion of the District's net position reflects capital assets such as land, buildings, apparatus, machinery or equipment. This was valued net of depreciation at \$440,178 less any related debt used to acquire those assets still outstanding. These debts included notes payable such as the outstanding balance due on the purchase of a Fire Command Vehicle which was financed at favorable rates through the Los Angeles Firefighter's Credit Union (\$20,607).

As the District uses these capital assets to provide services to residents; consequently these assets are not available for future spending. Though the District's investment in its capital assets is reported net of related debt, the resources (funds), needed to repay the debts must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The District's net position also included cash in a Money Market Account and cash which is considered "restricted" in that it is earmarked for specific projects. Total cash held by financial institutions for the District amounted to \$365,122 at the close of the fiscal year. This cash is generally utilized to assist in meeting the District's ongoing obligations to residents and creditors which may occur within any fiscal cycle; the balance of these funds adds to the District's fiscal position. Some of this cash is related to unspent fees or assessments collected in current or prior years. A portion of which was collected for park improvements and additions which do not include expenses for the maintenance and operation of the District's parks.

MORONGO VALLEY COMMUNITY SERVICES DISTRICT

2015

Table 2
STATEMENT OF ACTIVITIES

	2015	2014
Revenues:		
Program Revenues:		
Charges for services	\$ 120,397	\$ 34,880
Operating grants and contributions	4,841	11,692
Capital grants and contributions	18,184	11,516
General Revenues:		
Property taxes	373,931	363,061
Assessments	300,825	313,913
Other	5,140	2,763
Total Revenues	823,318	737,825
Expenses:		
Fire operations	768,585	795,807
Parks and recreation	76,782	88,911
Street lights	4,788	4,080
Other	537	699
Total Expenses	850,692	889,497
Change in net position	(27,374)	(151,672)
Net Position - Beginning	849,115	1,000,787
Net Position - Ending	\$ 821,741	\$ 849,115

Capital Asset and Debt Administration:

Capital assets.

There were no significant changes in capital assets and debt administration over the fiscal year.

Debt administration.

Purchase of the Fire Command Vehicle resulted in an increase in the long-term debt of the District as a loan was obtained in the amount of \$27,000 at 2.99% over a 60 month period starting in March of 2013. The added debt requires a monthly payment of \$484 over this period of time.

MORONGO VALLEY COMMUNITY SERVICES DISTRICT

2015

General Fund Budgetary Highlights.

Table 3 BUDGET			
	Original	Final	Variance
Revenues:			
Program Revenues:			
Charges for services	\$ 30,900	\$ 30,900	\$ -
Operating grants and contributions	12,200	12,200	-
Capital grants and contributions	-	-	-
General Revenues:			
Property taxes	360,452	360,452	-
Assessments	300,535	300,535	-
Other	3,533	3,533	-
Total Revenues	707,620	707,620	-
Expenses:			
General government	120,123	120,123	-
Fire operations	645,656	645,656	-
Parks and recreation	37,850	37,850	-
Street lights	4,000	4,000	-
Other	5,816	5,816	-
Total Expenses	813,445	813,445	-
Change in net position	(105,825)	(105,825)	-
Transfers to/from other funds	105,825	105,825	-
Net Position - Ending	\$ -	\$ -	\$ -

As indicated in table 3 the net position did not change there was only a shift of amounts between various line items.

Financial Analysis of the Government's Funds:

As noted previously, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements which include Generally Accepted Accounting Principles (GAAP), and those of the Governmental Accounting Standards Board (GASB). These are the accepted standard setting bodies for establishment of governmental accounting and financial reporting principles.

Governmental funds. The focus of District *governmental funds* is to provide information on near-term inflows, outflows and balances of spendable resources. This information is useful in assessing the District's financing requirements. In particular, **unreserved fund balance** may serve as a useful measure of a District's net resources *available for spending at the end of the fiscal year*. As noted on the previous page, such cash on hand can assist in meeting the District's ongoing obligations to residents and creditors by offsetting losses of revenues or meeting unplanned needs within a fiscal cycle. Where not used, this cash on hand serves as an *unreserved fund balance* adding to the District's net fiscal position.

Unreserved fund balances can also be used by a governmental agency to designate portions of such a net balance as future **designated reserves** within following fiscal cycles. Sort of like a designated savings account set aside for a specific purpose. Some governmental agencies utilize *designated reserves* and identify their

use to offset unplanned for emergency needs which may occur due to a localized or regional disaster such as fires, floods or other such needs. Additionally, governmental agencies may designate reserves to be used for contingencies which may occur within a current fiscal cycle, or to set aside funds to meet future *capital expenses* such as for replacement of structures, facilities or major fire apparatus and equipment. Quite commonly, agencies faced with significant cash on hand balances; designate a portion of such cash for investments in bonds or other assets which may provide available funding sources to meet future long-term needs of their agencies.

Ideally, an increase in either a *net fiscal position* or in *unreserved fund balance* from year-to-year would be a positive reflection of an agencies growth potential; or in the ability to sustain, improve or even expand services to the community as such increases occur. On the other hand, reductions in a *net fiscal position* or in *unreserved fund balance* from year-to-year could indicate a negative reflection in an agency's ability to sustain existing service needs of a community in future years unless additional sources of revenue could be generated.

At the end of the 2014-2015 fiscal year, the District's governmental funds reported combined ending fund balances of \$351,507, a decrease of \$5,672 in comparison with the prior fiscal year end. Of that balance \$322,177 constitutes an *unassigned fund balance* and potentially available for new spending in subsequent fiscal periods; the reduction over the prior fiscal year serves as an indicator that continued similar reductions from fiscal year to fiscal year is not sustainable, and would surely result in decreased service levels for the community unless additional sources of revenue can be found or fees increased to augment existing fiscal resources.

Economic Factors, Trends and Following Fiscal Year Needs

Governance for the District has recognized community priorities; and with strategic staff planning and community input has defined elements of fiscal planning to assist in preparation for the future fiscal needs to meet community service level desires. These elements include:

Emphasis on fiscal responsibility and accountability, establishment of taking a conservative approach, emphasis on establishment of stable reserves, and the need to invest in infrastructure maintenance.

Emphasis on fiscal responsibility and accountability.

Development of annual budgets reflecting anticipated expenditures within anticipated revenues and existing fund balances; while providing for contingencies, and establishment of specific funding of designated reserve accounts. Staff is committed to taking a long-term view for stabilization of fiscal resources and a need to augment such resources wherever possible.

Establishment of taking a conservative approach.

There is an acknowledgement that current economic conditions present a slow advance from a housing and economic correction which has existed for six years within the San Bernardino/Riverside County area which was hard hit due to the economic downturn.

Degradation of property values significantly impacted the District's property tax apportionment which forced a "hold-the-line" approach on services, as a slow advance in the Consumer Price Index (CPI) started to take hold. Advances in the CPI enabled a slow progression and slight gains in revenue derived from the resident approved fire suppression assessment fee over the prior year. While slow and steady, such gains will eventually enable the District to offset loss of property tax apportionment revenue until such time as the economy rebounds and property values increase.

Additional revenues acquired from service fees or property rentals added over time should also serve to offset prior loss of some of the property tax apportionment revenues.

Emphasis on establishment of stable reserves.

Future use of end-of-year *unreserved fund balances* can assist in development of ***Designated Reserves*** as recommended by the California Special Districts Association. This past fiscal year the Board of Directors adopted Financial Practices Guidelines providing for the intent to establish ***Designated Reserve Accounts*** in the upcoming fiscal year to assist in providing future stability for the District and specifically designated reserves for unanticipated emergencies, contingencies and for future capital outlay needs.

Investment in infrastructure maintenance.

When the Board of Directors adopted their Financial Practices Guidelines, they committed to having a "Reserve Study" performed in the following fiscal year which would outline the various assets owned by the District, establish their relative life cycle to determine useful lives of the components, and establish a five to thirty year funding plan to support the life cycle of the asset to include future replacement needs. Having such a fiscal plan for investment in infrastructure maintenance thus should reduce significant expenses which are commonly experienced with "deferred maintenance" and provide the ability to plan for and extend the life of any designated assets.

Economic Factors and Next Year's Budget

The District expects revenues in the 2015-2016 fiscal year to increase less than 1% over the prior year. The majority of this increase is expected to be from the resident voter approved fire assessment fee adopted in fiscal year 2007-08 providing for a modest increase tied to the experienced cost-of-living increase over the prior year. Recreation and park facilities use fees are expected to remain level or slightly increased and property tax revenues are projected to remain relatively flat as the economy slowly shifts forward.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for those who may have an interest in the governmental finances such as revenues, debt, assets and liabilities. Questions concerning any of the information provided in this report, or requests for additional financial information should be directed to the General Manager's Office of the Morongo Valley Community Services District at 11207 Ocotillo Street, P. O. Box 46, Morongo Valley, CA 92256.

For those who desire, contact may be made by telephone at 760-363-6454 to schedule an appointment with the General Manager to review any aspect of the District's financial position or the reports which have been provided.

BASIC FINANCIAL STATEMENTS

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
ASSETS			
Cash	\$ 338,192	\$ -	\$ 338,192
Cash - restricted	26,930	-	26,930
Total cash	365,122	-	365,122
Accounts receivable	19,522	-	19,522
Prepaid insurance	2,400	-	2,400
Notes receivable	45,384	-	45,384
Capital assets (Net)	440,178	-	440,178
TOTAL ASSETS	872,606	-	872,606
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	872,606	-	872,606
LIABILITIES			
Accounts payable	5,287	-	5,287
Unearned revenue	30,250	-	30,250
Notes payable - Current	5,434	-	5,434
Notes payable - Noncurrent	9,894	-	9,894
TOTAL LIABILITIES	50,865	-	50,865
DEFERRED INFLOWS OF RESOURCES	-	-	-
NET POSITION			
Net investment in capital assets	424,850	-	424,850
Restricted net position	26,930	-	26,930
Unrestricted net position	369,961	-	369,961
TOTAL NET POSITION	\$ 821,741	\$ -	\$ 821,741

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Gov't Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental Activities:					
Fire operations	\$ 768,585	\$ 113,284	\$ 4,161	\$ 18,184	\$ (632,956)
Parks and recreation	76,782	7,113	680	-	(68,989)
Street lights	4,788	-	-	-	(4,788)
Interest on long-term debt	537	-	-	-	(537)
Total Governmental Activities	850,692	120,397	4,841	18,184	(707,270)
Business-type activities:	-	-	-	-	-
Total Business-Type Activities	-	-	-	-	-
Total Primary Government	\$ 850,692	\$ 120,397	\$ 4,841	\$ 18,184	(707,270)
General revenues:					
Property taxes					373,931
Assessment					300,825
Grants, contributions and other income not restricted to specific programs					5,044
Unrestricted interest income					96
Total General Revenues					679,896
Change in net position					(27,374)
Net position - beginning					849,115
Net position - ending					\$ 821,741

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015

	General Fund	Total Governmental Funds
ASSETS		
Cash	\$ 338,192	\$ 338,192
Cash - restricted	26,930	26,930
Accounts receivable	19,522	19,522
Prepaid insurance	2,400	2,400
TOTAL ASSETS	387,044	387,044
DEFERRED OUTFLOWS OF RESOURCES	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 387,044	\$ 387,044
LIABILITIES		
Accounts payable	\$ 5,287	\$ 5,287
Other liabilities	30,250	30,250
TOTAL LIABILITIES	35,537	35,537
DEFERRED INFLOWS OF RESOURCES	-	-
FUND BALANCE		
Nonspendable:		
Prepaid expenses	2,400	2,400
Restricted for:		
General Government	26,930	26,930
Unassigned	322,177	322,177
TOTAL FUND BALANCE	351,507	351,507
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	\$ 387,044	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	440,178
Governmental funds focus on current financial resources. Accordingly, they report only those receivables that are considered potentially relevant to near-term liquidity	45,384
Governmental funds focus on current financial resources. Accordingly, they report only those liabilities that are considered potentially relevant to near-term liquidity	(15,328)
Net Position of governmental activities	<u>\$ 821,741</u>

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund
REVENUES	
Tax assessments	\$ 368,323
Fire assesment	300,825
Tax revenue - homeowners' property tax relief	5,608
Grant income	18,184
Interest	96
Fire service	113,284
Park concessions	7,113
Donations	4,841
Other revenue	5,882
TOTAL REVENUES	824,156
EXPENDITURES	
Fire operations	742,443
Parks and recreation	76,781
Street lights	4,788
Debt service	5,816
TOTAL EXPENDITURES	829,828
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(5,672)
OTHER FINANCING SOURCES AND (USES)	
Transfers in from other funds	-
Transfers out to other funds	-
Net Other Financing Sources and (Uses)	-
Net change in fund balances	(5,672)
FUND BALANCE - BEGINNING OF YEAR	357,179
FUND BALANCE - END OF YEAR	\$ 351,507

MORONGO VALLEY COMMUNITY SERVICES DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds	\$ (5,672)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents the amount by which depreciation exceeded capital outlays.	(26,143)
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Governmental funds report loan receivable payments as income. However, in the statement of activities the payment is applied to reduce the loan receivable principal.	(838)
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Governmental funds report loan payments as expenditures. However, in the statement of activities the payment is applied to reduce the loan principal.	5,279
Change in net position of governmental activities	<u>\$ (27,374)</u>

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

1. NATURE OF ORGANIZATION

Morongo Valley Community Services District, Morongo Valley, CA was incorporated August 4, 1958 under statutory authority as set forth in California Government Code Sec. 61000 et seq. The District is responsible for fire protection, parks and recreation, and street lighting.

BOARD OF DIRECTORS

President.....	Johnny Tolbert
Vice-President.....	Kristina Brook
Director of Finance.....	Karen Lowe
Director of Legislative/Projects & Fire Commissioner.....	Gayle Swarat
Parks Commissioner.....	Chuck Osborne

ADMINISTRATION

General Manager.....	Donna Munoz
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Morongo Valley Community Services District (the District) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no component units and is not a component unit of another primary government.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligible requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The general fund is the government's primary operation fund. It accounts for all financial resources of the general government, except those required to be accounted in another fund.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, service, or privileges provided, 2) operation grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Revenue

Revenue consists primarily of property tax assessments.

Accounts Receivable

Accounts receivable at year end consist primarily of property tax assessments from the County of San Bernardino. Management has determined the entire amount of the receivables is fully collectible, therefore, no allowance for doubtful accounts has been established. All amounts are due to be collected within one year.

Federal and State Grant Revenue

Grant revenue is recognized when the program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS (Continued)

Investments

Under provision of the District's Investment Policy, and in accordance with Section 53601 of the California Government Code, the District may invest in the following types of investments:

- Securities of the U.S. Government, or its agencies
- Small Business Administration Loans
- Negotiable Certificates of Deposits
- Bankers Acceptances
- Commercial Paper
- Local Agency Investment Fund (State Pool Deposits)
- Passbook Savings Account Demand Deposits
- Repurchase Agreements
- Reverse Repurchase Agreements

Capital Assets

Capital assets includes property, equipment, and infrastructure assets (e.g. vehicles, equipment, office equipment and furniture), which are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Vehicles	10
Office equipment	5
Computer equipment	5

Long-Term Obligations

In the government-wide financial statements long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of net position. There are no bond premiums or discounts associated with these obligations.

3. CASH AND INVESTMENTS

Cash and cash equivalents consist of the following:

	<u>Fair Value</u>
Cash in bank	\$ 338,192
Cash - restricted	26,930
Total Cash and Cash Equivalents on deposit with Financial Institutions	<u>\$ 365,122</u>

Investments Authorized by the California Government Code and the District's Investment Policy

The succeeding table identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address **interest rate risk, credit risk, and concentration credit risk**. This table does not address investment of debt proceeds held by a bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District investment policy.

NOTES TO FINANCIAL STATEMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

* Excluding amounts held by a bond trustee that are not subject to California Government Code restrictions

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represents 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirement that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposit. Therefore, all cash funds of the District deposited with financial institutions are fully insured by such collateral pools.

NOTES TO FINANCIAL STATEMENTS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investment, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of a mutual fund or government investment pool.

4. CAPITAL ASSETS

The following is a summary of changes in the capital assets during the fiscal year:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Assets:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 203,330	\$ -	\$ -	\$ 203,330
<i>Capital assets being depreciated:</i>				
Buildings and improvements	588,312	-	-	588,312
Furniture and equipment	437,564	-	-	437,564
Fire equipment	596,785	16,087	-	612,872
Total Capital Assets being depreciated	1,622,661	16,087	-	1,638,748
Accumulated Depreciation:				
Buildings and improvements	(416,983)	(11,632)	-	(428,615)
Furniture and equipment	(399,956)	(12,598)	-	(412,554)
Fire equipment	(542,731)	(18,000)	-	(560,731)
Total Accumulated Depreciation	(1,359,670)	(42,230)	-	(1,401,900)
<i>Net capital assets being depreciated</i>	262,991	(26,143)	-	236,848
Net Governmental Activities				
Capital Assets	\$ 466,321	\$ (26,143)	\$ -	\$ 440,178
Depreciation expense for the period amounted to:				<u>\$ 42,230</u>

5. PROPERTY TAX CALENDAR

The District's assessments are included on county property tax bills. Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien date	March 1	
Levy date	July 1 to June 30	
Due date	November 1	- First installment
	February 1	- Second installment
Delinquent date	December 10	- First installment
	April 10	- Second installment

NOTES TO FINANCIAL STATEMENTS (Continued)

6. CREDIT LINE PAYABLE

The District has entered into a line of credit agreement with a bank. Under this agreement the District can borrow working capital advances up to \$200,000. The agreement requires interest only payments. As of yearend the interest rate was 5.00%. The balance as of yearend on the credit line was \$-0-.

7. LONG-TERM DEBT

The following represents the long-term debt of the District:

Chevy Tahoe: the District obtained a loan in the amount of \$27,000 on 3/11/13. The interest rate was 2.99% and required a monthly payment of \$484 for a 60 month period.

A summary of changes in long-term debt is as follows:

	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One Year
Chevy Tahoe	\$ 20,607	\$ -	\$ (5,279)	\$ 15,328	\$ 5,434
Total	\$ 20,607	\$ -	\$ (5,279)	\$ 15,328	\$ 5,434

Annual debt service requirements to maturity are as follows:

	Principal	Interest	Total
For the year ending June 30:			
2016	\$ 5,434	\$ 384	\$ 5,818
2017	5,594	220	5,814
2018	4,300	54	4,354
Total	\$ 15,328	\$ 658	\$ 15,986

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors & omissions on natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

9. RESTRICTED CASH

The District held restricted cash on hand at year end. The restricted cash includes amounts received for various programs the District has, including: the tennis program, library improvements, MAPS program, and the senior nutrition program. There is also an amount included for future improvements to be made to the Mojave property owned by the District.

NOTES TO FINANCIAL STATEMENTS (Continued)

10. NOTES RECEIVABLE

The District sold property on September 29, 2009 for cash and an installment note in the amount of \$50,000. The note requires an annual payment of \$3,333 on July 1 each year, continuing until July 1, 2040 at which time any remaining balance is due and payable. Interest rate is 5.305%.

Annual notes receivable maturities are as follows:

	Principal	Interest	Total
For the year ending June 30:			
2016	\$ 979	\$ 2,355	\$ 3,334
2017	1,031	2,303	3,334
2018	1,085	2,249	3,334
2019	1,143	2,191	3,334
2020	1,204	2,130	3,334
Thereafter	39,942	30,072	70,014
Total	<u>\$ 45,384</u>	<u>\$ 41,300</u>	<u>\$ 86,684</u>

11. SUBSEQUENT EVENTS

Accounting standards require that the District assess and disclose the date and the basis for that date through which potential subsequent events have been evaluated. The date represents the date the financial statements were issued or were available to be issued. The District evaluated all potential subsequent events as of October 26, 2015, when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after the balance sheet date or as of October 26, 2015 that require disclosure in the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

MORONGO VALLEY COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2015

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted amounts		Actual Amounts	
	Original	Final		
REVENUES				
Tax revenue	\$ 360,452	\$ 360,452	\$ 368,323	\$ (7,871)
Fire assesment	300,535	300,535	300,825	290
Tax revenue - homeowners' property tax relief	-	-	5,608	5,608
Grant income	3,500	3,500	18,184	14,684
Interest	200	200	96	(104)
Fire services	25,900	25,900	113,284	87,384
Park concessions	5,000	5,000	7,113	2,113
Donations	8,700	8,700	4,841	(3,859)
Other revenue	3,333	3,333	5,882	2,549
TOTAL REVENUES	707,620	707,620	824,156	100,794
EXPENDITURES				
General Government				
Wages and benefits	63,786	63,786	54,402	9,384
Operations expense	56,337	56,337	49,255	7,082
Total General Government	120,123	120,123	103,657	16,466
Fire Operations				
Wages and benefits	495,031	495,031	499,658	(4,627)
Operations expense	150,625	150,625	152,633	(2,008)
Total Fire Operations	645,656	645,656	652,291	(6,635)
Parks and Recreation				
Wages and benefits	26,000	26,000	34,825	(8,825)
Operations expense	11,850	11,850	29,031	(17,181)
Total Parks and Recreation	37,850	37,850	63,856	(26,006)
Street Lights				
Repairs and maintenance	4,000	4,000	4,208	(208)
Total Street Lights	4,000	4,000	4,208	(208)
Debt Service				
Principal expense	-	-	-	-
Interest expense	5,816	5,816	5,816	-
Total Debt Service	5,816	5,816	5,816	-
TOTAL EXPENDITURES	813,445	813,445	829,828	(16,383)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(105,825)	(105,825)	(5,672)	100,153
OTHER FINANCING SOURCES AND (USES)				
Transfers to/from other funds	105,825	105,825	-	(105,825)
Net Other Financing Sources and (Uses)	105,825	105,825	-	(105,825)
Net Change in Fund Balances	-	-	(5,672)	(5,672)
FUND BALANCE - BEGINNING	-	-	357,179	357,179
Adjustment to Beginning Fund Balance			-	-
FUND BALANCE - END OF YEAR	\$ -	\$ -	\$ 351,507	\$ 351,507

SUPPLEMENTARY INFORMATION

MORONGO VALLEY COMMUNITY SERVICES DISTRICT**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -****GOVERNMENTAL FUNDS****FOR THE YEAR ENDED JUNE 30, 2015**

	General Fund			Total
	Fire	Park and	Street	Governmental
	Operations	Recreation	Lights	Funds
REVENUES				
Tax revenue	\$ 286,754	\$ 76,781	\$ 4,788	\$ 368,323
Fire assesment	300,825	-	-	300,825
Tax revenue - homeowners' property tax relief	5,047	505	56	5,608
Grant income	18,184	-	-	18,184
Interest	96	-	-	96
Fire service	113,284	-	-	113,284
Rents and concessions	-	7,113	-	7,113
Donations	4,161	680	-	4,841
Other revenue	2,548	3,334	-	5,882
TOTAL REVENUES	730,899	88,413	4,844	824,156
EXPENDITURES				
Salaries and wages	472,925	35,549	272	508,746
Employee benefits	74,047	6,060	33	80,140
Operations expense	195,471	35,172	4,483	235,126
Debt service	5,816	-	-	5,816
TOTAL EXPENDITURES	748,259	76,781	4,788	829,828
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(17,360)	11,632	56	(5,672)
OTHER FINANCING SOURCES AND (USES)				
Transfers in from other funds	-	-	-	-
Transfers out to other funds	-	-	-	-
Net Other Financing Sources and (Uses)	-	-	-	-
Net change in fund balances	(17,360)	11,632	56	(5,672)
FUND BALANCE - BEGINNING OF YEAR	267,506	88,335	1,338	357,179
FUND BALANCE - END OF YEAR	\$ 250,146	\$ 99,967	\$ 1,394	\$ 351,507

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
CALCULATION OF APPROPRIATION SPENDING LIMIT (Prop. 4 "Gann Limit")
FOR THE YEAR ENDED JUNE 30, 2015

Calculation of Spending Limit:

Last Year's Limit		\$ 567,374
Adjustment Factors:		
Change in Population/City	1.0048	
Growth Factor	x <u>0.9977</u>	
	1.0025	
Total Adjustment (Dollars)		<u>1,418</u>
New Appropriation Limit for Fiscal Year 2014-2015		<u><u>\$ 568,792</u></u>

Appropriations in Fiscal Year 2013-2014 Compared to Limit:

Proceed from Taxes	\$ 707,621
Less Exclusions	<u>(350,911)</u>
Appropriations Subject to Limitation	356,710
Appropriations Limit for FY 2013-2014	<u>568,792</u>
Amount Under Limit	<u><u>\$ 212,082</u></u>

Explanation of Gann Spending Limit:

The Gann spending limit places a cap on the amount of local government spending that may be financed from proceeds of taxes. The limit is adjusted annually by a combined growth factor, which takes into account both inflation and population growth.

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

A. REQUIRED SUPPLEMENTARY INFORMATION

Budgets are developed consistent with generally accepted accounting principles. All annual appropriations lapse at yearend.

Budget information is presented by key government operations of the District. Encumbrances exceeded appropriations in various line items of the budget but in total did not exceed the budget.

B. SUPPLEMENTARY INFORMATION

The combining statement of revenues and expenditures reflects the revenues and expenditures of the District by key government activity in accordance with the governmental fund presentation.

**FY 2015-16
Mid-Year Spreadsheets**

Attachment 2

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01/07/16
Accrual Basis

Morongo Valley C.S.D.
Profit & Loss Budget vs. Actual
July through December 2015

16

Ordinary Income/Expense	Jul - Dec 15	Budget	\$ Over Budget	Notes:
Income				
4000 - County Taxes				
4001 - Countywide & Unitary Accrued	182732	184741	-2009	
4006 - Fire Suppression Assessment	150497	151466	-969	
Total 4000 - County Taxes	333229	336207	-2978	
4100 - CSD				
4101 - Community Donations	2086	0	2086	Restricted Funds Mojave
4106 - Interest	21	0	21	
4107 - Note Payments	3334	1887	1667	Full pmt rec'd
4198 - Income - Other	501	0	501	Brown Act reimbursement
Total 4100 - CSD	5942	1667	4275	
4200 - FIRE SERVICES				
4290 - Income - Other	66	0	66	CPR Class
4291 - Donations	2273	0	2273	Restricted Funds
4293 - OES Reimbursement	120829	11000	115829	Billed OES - 50% received as of 12/31/15
4294 - Cost Recovery - Reimbursement	1768	2000	-232	
4295 - Fire Inspections	408	1200	-792	
Total 4200 - FIRE SERVICES	131344	14200	117144	
4300 - COVINGTON PARK				
4310 - Rents & Concessions	3114	2500	614	
Total 4300 - COVINGTON PARK	3114	2500	614	
4700 - Grant Income				
4701 - Reimbursable Expenditures	119	5000	-4881	No pending grants as of 12/31
Total 4700 - Grant Income	119	5000	-4881	
Total Income	473748	359574	114174	
Gross Profit	473748	359574	114174	
Expense				
5006 - Fire Operations				
Operating Supplies				
5252 - Fire Prevention Services	45	750	-705	
5265 - Paramedic Supply & Equipment	2776	5000	-2224	
5275 - OES & Mutual Aid Expense	2492	0	2492	reimbursed
5285 - Disaster Preparedness	0	75	-75	
Total Operating Supplies	5313	5825	-512	

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Accrual Basis

Morongo Valley C.S.D.
Profit & Loss Budget vs. Actual
July through December 2015

	<u>Jul - Dec 15</u>	<u>Budget</u>	<u>\$ Over Budget</u>	Notes:
Training & Safety				
5247 - Physicals & Vaccinations	1249	2000	-751	
5249 - Firefighter Personal Equipment	828	2750	-1922	
5250 - Firefighter Training Expense	200	1500	-1300	
5256 - Uniforms	2061	2250	-189	
Total Training & Safety	4338	8500	-4162	
Administration				
5225 - County Dispatch	3469	3900	-431	
5227 - Communications	1908	1250	658	800 Radio monthly fee's \$157
5237 - Inspections ICEMA/Zoll	2400	1400	1000	ICEMA full year paid - no further expense
5245 - Other Expense-Recruitment	157	50	107	
5260 - Building Maintenance	1193	1000	193	
5280 - Medical Director	2500	2500	0	
5290 - Special Assessment	2758	1375	1383	Wildan Full year paid - no further expense
5295 - Office Equipment	628	500	128	475.00 restricted funds used
5296 - Office Expenses & Supplies	917	650	267	266.00 restricted funds
5297 - Supplies	591	1250	-659	
5298 - Memberships & Associations	511	450	61	
Total Administration	17031	14325	2706	
Apparatus				
5234 - Apparatus/Equipment Purchased	3812	3675	-137	498.00 restricted funds
5235 - Apparatus Gasoline	5756	7500	-1744	
5240 - Apparatus Maint. & Repair				
5241 - Fire Engine Maint. & Repair				
BE 462 - Brush Engine 462	7420			6,982.00 CES repairs
E462 - Fire Engine 462	428			
ME461 - Medic Engine 461	29732			24,983.00 engine
5241 - Fire Engine Maint. & Repair - Other	0	10000	-10000	
Total 5241 - Fire Engine Maint. & Repair	37580	10000	27580	
5243 - Yearly Equipment Testing	3357	3675	-318	
5244 - Radio Equipment	701	1625	-924	
5293 - Command Vehicle				
C5200 - 2013 Tahoe	2150			
C5201 - Tahoe	1638			1,259.00 Restricted Funds
5293 - Command Vehicle - Other	0	1700	-1700	
Total 5293 - Command Vehicle	3788	1700	2088	
Total Apparatus	54993	28675	26318	

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Accrual Basis

Morongo Valley C.S.D.
Profit & Loss Budget vs. Actual
July through December 2015

	<u>Jul - Dec 15</u>	<u>Budget</u>	<u>\$ Over Budget</u>	Notes:
Compensation				
5203 - Compensation - Paramedics	57967	52726	5239	Employee Turnover-short staff
5204 - Compensation - Engineers	59717	54027	5690	2,655.00 & MOU Holiday
5205 - OES & Mutual Aid	39698	5500	34198	34,198.00 refer to OES Income
5206 - Compensation - Captains	65804	23351	42453	30,453.00 MOU staffing - TDD coverage
5207 - Compensation - Chief	14507	26506	-11999	TDD credit
5209 - Payroll Taxes	18734	14482	5252	3,250.00 OES staffing
5215 - Worker's Comp. Ins.	20223	19978	246	3,020.00 OES
5219 - Employee Benefits	8773	10400	-1627	New staff notcovered
5230 - Subsistence Pay Reserves	7765	9100	-1335	
5232 - EMS Coordinator	3320	6556	-3236	
Total Compensation	<u>297506</u>	<u>223220</u>	<u>14277</u>	
Total 5006 - Fire Operations	379182	280554	98627	108,037.00 Adjustments not on budget
5005 - Wages & Benefits				
5002 - Wages - Administrative	18899	18000	699	692 Paid out vacation time
5003 - Wages - Support Staff	4040	4295	545	reduction in hours not feasible
5004 - Wages - Parks	14128	11700	2428	1,002.00 Vacation Backfill
5015 - Payroll Taxes - Employer	3076	3469	-393	
5018 - CSD Workers Comp.	2577	2846	-268	
5019 - Employee Benefits	2207	1953	254	Insurance Increase
Total 5005 - Wages & Benefits	<u>45527</u>	<u>42262</u>	<u>3265</u>	
5000 - Administration				
5071 - Repair and Maintenance				
5320 - CP Equipment	1407	1000	407	535.00 Battery & Starter
5365 - CP Buildings	3384	1000	2384	1,344.00 \$1171 Plumbing, \$173lights, Christmas \$178
5370 - CP Grounds	1405	1200	205	
5375 - Gasoline	876	525	351	
5377 - Mojave Property	2077			2,076.00 group for sale- restricted
Total 5071 - Repair and Maintenance	<u>9150</u>	<u>3725</u>	<u>5425</u>	
5070 - Insurance-General	6782	7750	-968	
5080 - Office Expense				
5065 - Postage	257	200	57	
5068 - Printing/Copies	810	750	60	Full year maint contract \$720 paid
5073 - Legal & Professional Expense	692	900	-208	
5074 - Internet Service	280	420	-140	
5075 - Publications & Education	0	200	-200	
5076 - Memberships	1729	785	964	CSDA full year \$1634
5077 - Registrar of Voters Expense	20	500	-480	

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Accrual Basis

Morongo Valley C.S.D.
Profit & Loss Budget vs. Actual
July through December 2015

	<u>Jul - Dec 16</u>	<u>Budget</u>	<u>\$ Over Budget</u>	Notes:
5079 • Meeting Expense	177	100	77	director awards
5081 • Office Equip & Maintenance	0	600	-600	
5082 • Bank Charges	257	125	132	LOC interest - operating funds
5083 • Expenses & Supplies	977	340	637	GM mileage \$593
Total 5080 • Office Expense	5199	4900	299	
5085 • Auditing/Accounting	9855	6850	3005	Full year Audit prep \$6975 paid
5090 • Children's Library	161	100	61	\$100 stipend summer prog
5096 • Street Lights	2075	2000	75	
5100 • Utilities				
5052 • 5252 Water	1198	1400	-202	
5053 • 5053 Electricity	6426	4000	2427	
5054 • 5054 Gas	542	1000	-458	
5060 • 5060 Telephone	1837	2125	-288	
Total 5100 • Utilities	10003	8525	1478	
5200 • Debt Service				
5220 • Lease/Purchase Equip. Reserve	2908	2908	0	
Total 5200 • Debt Service	2908	2908	0	
Total 5000 • Administration	46133	36758	9375	5,649.98 Adjustments not on budget
Uncateg • Uncategorized Expense				
Total Expense	470842	359574	111268	
Net Ordinary Income	2906	0	2906	
Net Income	2906	0	2906	

OES

Mojave

Restricted Fire Funds

July 2015 Special Study – Staff Report

Attachment 3

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

215 North D Street, Suite 204, San Bernardino, CA 92415-0490
(909) 383-9900 • Fax (909) 383-9901
E-MAIL: lafco@lafco.sbcounty.gov
www.sbclafco.org

DATE: JULY 1, 2015

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #9: LAFCO 3189 - Special Study of the Morongo Valley Community Services District

RECOMMENDATION:

Staff recommends that the Commission take the following actions related to LAFCO 3189:

1. Receive and file the special study for the Morongo Valley Community Services District.
2. Request the Morongo Valley Community Services District to provide LAFCO with its adopted annual budget, mid-year financial report, and financial statements for the next three years.
3. Direct LAFCO staff to monitor and update the Commission biannually for the next three years regarding the financial position and sustainability of the Morongo Valley Community Services District.

BACKGROUND:

On August 18, 2014, LAFCO received a complaint from a director of the Morongo Valley Community Services District dated August 11, 2014 (included as Attachment #1). The complaint was also distributed to the Grand Jury and the Third District Supervisor. The complaint states that since LAFCO's service review/sphere update of November 2012, the district's expenses have increased dramatically. The director requested LAFCO's assistance to review the district's operations and determine the District's ability to preserve fire protection services and avoid bankruptcy.

In response to the complaint, staff conducted a phone interview with the general manager in September followed by a site visit with the general manager and fire chief in January. At the January 21, 2015 hearing, based upon staff's recommendation the Commission

authorized a special study of the district. This special study is narrow in focus – determining the financial sustainability of the district to perform the minimum level of services.

Methodology

Throughout February, March, and April the district general manger formulated the FY 2015-16 Budget. During this time, the general manager provided LAFCO staff with documentation on cost cutting measures for 2014-15 and 2015-16 as well as insight into rectifying the problems that have plagued the district since at least 2010.

On April 7, LAFCO staff conducted a site visit and interviewed the general manager and interim fire chief. On April 11, the district held a special meeting and unanimously adopted its preliminary 2015-16 budget as presented by district staff. The district adopted the final 2015-16 budget at its May 20 hearing.

Sources utilized for this report include:

- Interviews and correspondence with district management staff
- District financial documents
 - Audits through FY 2013-14
 - Ledger for FY 2014-15 through March with year-end projections provided by district
 - FY 2015-16 final budget provided by district
- State Controller Report for Special Districts through FY 2012-13
- Assessed Valuation data from the County Auditor
- Population data from the U.S. Census with projections from ESRI (Environmental Systems Research Institute)
- District fire department response calls by type from 2011 through 2014
- Traffic flow data from the State Department of Transportation and ESRI

Review of Draft Report

The draft staff report was provided to the district for review and comment which culminated with a meeting on June 11. The District has identified that it does not have written comments on the draft staff report. The final step for the special study is this report presented to the LAFCO Commission at a public hearing.

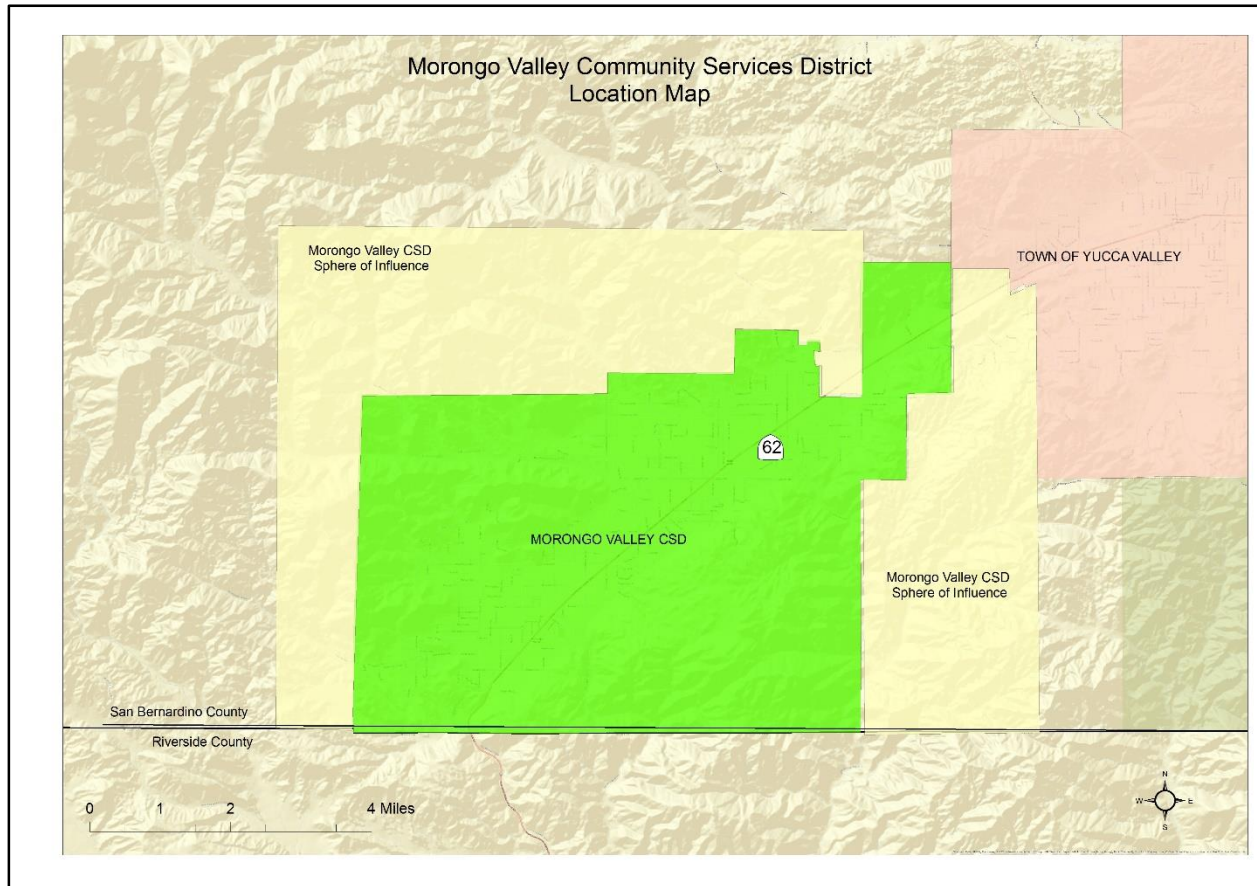
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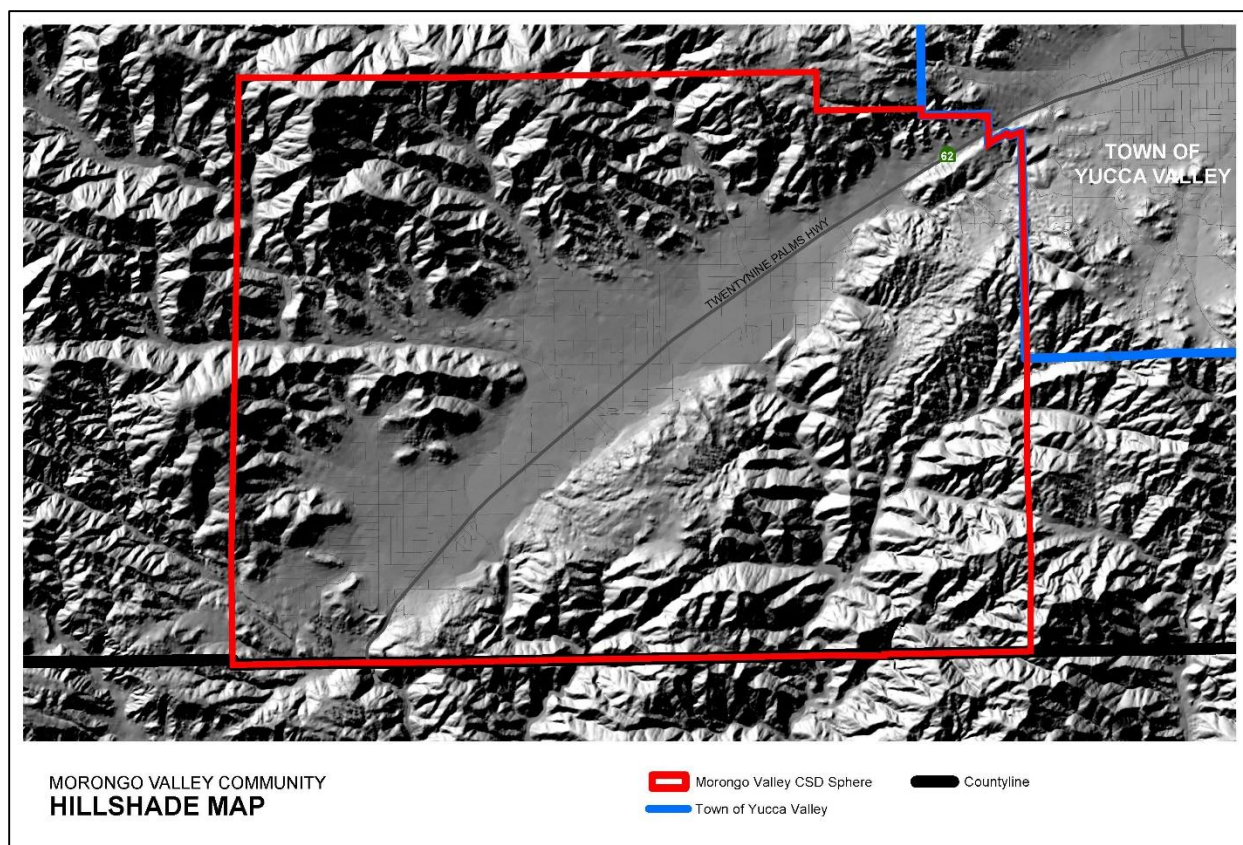
Location

The special study area is generally situated in the Commission's defined South Desert Region at the southwestern end of the Morongo Basin, approximately 58 miles east of San Bernardino and 23 miles north of Palm Springs by car. State Route 62 (Twentynine Palms Highway) traverses through the community which is south of the Sawtooth Mountains, southwest of the LAFCO defined Yucca Valley community, westerly of the Joshua Tree National Park, north of the Riverside county line, and east of the San Bernardino Mountain

Range. The study area encompasses approximately 27 square miles and includes portions of the San Geronio Wilderness and the Big Morongo Canyon Preserve.

A map of the District is shown below. The second map is a relief map which illustrates the topographic constraints that form the Morongo Valley. Morongo Valley is basically a rural community with scattered development on large parcels of land. Development consists mostly of residential single-family homes with little commercial development. The community has wilderness and recreational areas within and surrounding the community.





Morongo Valley CSD

In 1958 the voters approved the formation of the Morongo Valley Community Services District. The CSD is an independent special district with a five-member board of directors elected at-large and operates under Community Services District Law, Government Code Section 61000 et seq. Currently, the CSD is authorized by LAFCO to provide the functions of streetlighting, fire protection, park and recreation, and library service pursuant to the *Rules and Regulations of the Local Agency Formation Commission of San Bernardino County Affecting Functions and Services of Special Districts*. Currently, the district does not actively provide library service.

Special Tax

In 2002, in response to declining numbers of volunteer firefighters and community concerns regarding lengthy response times by the ambulance service assigned to the area, the District proposed, and the electorate approved, the Morongo Valley Fire and Rescue Assessment pursuant to Government Code Sections 50078 et seq. The total cost of the service is allocated to each property based on the relative benefit to a property in relation to a single family home, the type of property, and its size, adjusted for inflation capped at 3% each year. Each year the District's contracted engineering firm conducts a "fire suppression count", essentially auditing the parcel list for the assessment. According to the ballot measure, the assessment provides funding to:

- Ensure a minimum of two paid fire personnel on duty 24 hours a day, 7 days a week,
- Upgrade Emergency Medical Service from EMT/Firefighter (Basic Life Support) to Paramedic/Firefighter (Advance Life Support),
- Significantly improve response times for Advance Life Support,
- Guard against possible increases in fire and home insurance by protecting the District's fire risk rating, and
- Work towards improving fire risk rating in areas with highest insurance rates by establishing a water haul system.

Agreement with ICEMA

The CSD (through its Fire Department) and the Inland Counties Emergency Medical Agency ("ICEMA")¹ entered into a non-financial agreement in 2008 authorizing the CSD to provide non-transport Advanced Life Support services within District's boundaries and sphere of influence.² The agreement was from February 2008 through January 2010 and is automatically renewed for successive two-year periods unless terminated or amended, with the current two-year term being through January 2016.

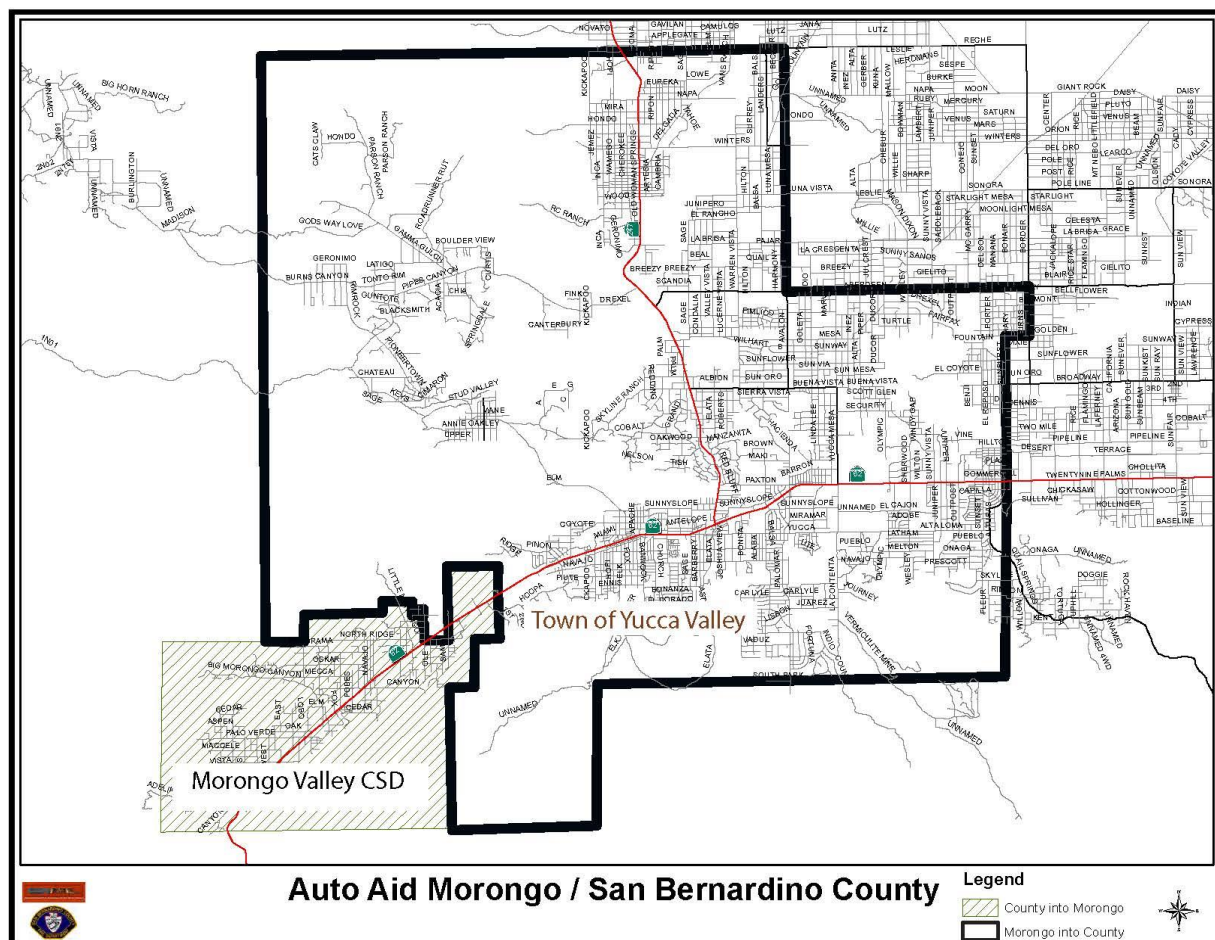
Agreement with County Fire

The CSD and County Fire have entered into an automatic aid/mutual aid agreement "to provide the most expeditious response to suppress fires and render other emergency services".³ The agreement identifies that neither party shall be obligated to reimburse the other for its response. The term of the agreement is until June 30, 2017 with a 90-day termination notice. A map of the agreement areas is shown below:

¹ ICEMA is a joint powers authority composed of the Counties of San Bernardino, Mono, and Inyo with the San Bernardino County Board of Supervisors as the ex-officio ICEMA Board of Directors.

² Inland Counties Emergency Medical Agency, 5 Feb 2008, County Board Agenda Item 52.

³ County of San Bernardino, Board of Supervisors, Agreement No. 12-284, 22 May 2012, Agreement No. 12-284, Agenda Item 79



Source: County of San Bernardino

2012 Sphere of Influence Expansion

As a part of the 2012 service review/sphere update, the Commission expanded the district's sphere to the west based upon discussion with the district that it provided fire and emergency response to the area under agreement with the County. It appears that there is no automatic agreement for this area and the response is simply that of mutual aid, which would not necessitate an expanded sphere. Unless this circumstance changes, as a part of the district's next service review a sphere reduction to reflect its service area will be evaluated.

State Responsibility Area

The entire community is within a State Responsibility Area, and thus is subject to the State Responsibility Area Fire Prevention Fee. Wildland fires are under the jurisdiction of the California Department of Forestry and Fire Protection (Cal Fire) and the U.S. Forest Service, both not subject to LAFCO jurisdiction. The closest fire stations beyond the Morongo Valley community are CDF's Yucca Valley Station (Station #121) and County Fire's Station #41 (Yucca Valley Station). Other stations nearby that could also respond are County Fire's Stations #36 (Joshua Tree Station) and #38 (Pioneer Town Station), the

National Park Service Black Rock Interagency Fire Center (Station #608), and the Riverside County Fire Department Stations #36 and #37 (Desert Hot Springs Fire Stations).

Disadvantaged Unincorporated Community

The Morongo Valley community is considered a disadvantaged unincorporated community – identified as communities that have an annual median household income that is less than 80 percent of the statewide annual median household income, which is under \$48,305 for 2015 (defined by Government Code Section 56302). The district overlays parts of five Census Block Groups, whose annual median household incomes range from \$34,311 to \$45,986.

WHAT THE DISTRICT DID NOT REVEAL DURING THE 2012 SERVICE REVIEW

2012 Service Review Determination

In 2012 LAFCO conducted a service review of the district and made the required determinations outlined in Government Code Section 56430. The following is an excerpt from the conclusion to Determination IV, Financial Ability of Agencies to Provide Services:

In reviewing the District's financial statements, net assets have increased by 38% since FY 2006-07. During the past five years Total Assets have increased by 23% and Total Liabilities have decreased by 74%. From the Net Assets perspective, the financial health the District overall has increased during the past five years. Additionally, the fund balance has increased by 124% since FY 2006-07 with Total Revenues increasing by 25% and Total Expenditures increasing by 63%. The CSD maintains unrestricted fund balance in its general fund of more than two months of regular general fund operating revenues or expenditures. Therefore, given the data provided by the CSD, the CSD is likely to be able to continue providing service at its current level through 2014-15.

Given the information provided to LAFCO at that time, the financial ability of the agency was not a concern.

Matters Revealed to LAFCO staff in 2015

The interviews conducted by LAFCO staff in January and April 2015 revealed management issues related to the district's operations and finances going back many years during the tenure of previous general managers. Items of significance include:

- Previous misuse of grant funds. The funds from some grants were not used for the intended purpose which resulted in the district being blacklisted from future grant applications. This circumstance artificially inflated the fund balance. To regain eligibility for grant funding required the closing of the previous grants, which meant that the district had to spend other funds (roughly \$11,000) to comply with the original grant purpose.
- From 2009 through 2012, the District deferred capital and maintenance expenditures which artificially inflated the fund balance. Over the past two years roughly \$34,500

has been spent on trimming trees and reroofing the maintenance shed, firehouse dorm, and park pavilion.

- Whistle blower and hostile work environment lawsuits which included undisclosed settlements. The breakdown of property liability claims for a ten year period from 2004-05 through 2013-14 is summarized below:

Claim Type	# of Claims	Total Incurred
General Bodily Injury	3	\$ 22,852
Employment Practices Liability	3	\$ 279,189
Auto Property Damage	1	\$ 2,523
Auto Comprehensive	1	\$ 755
Theft	2	\$ 10,329
Total	10	\$ 315,648

Based upon the district's loss history, the Special Districts Risk Management Authority ("SDRMA") increased the deductible for any employment practice claims occurring after July 1, 2014 from \$5,000 to \$25,000.

- In 2014, a SDRMA representative conducted a site-visit and issued a 63-page report on liability and risk exposure. The district states that it now complies with its OSHA issues which required roughly \$11,500 to come into compliance.
- To balance the FY 2013-14 budget, the District used \$105,000 from cash carried over from the prior year.
- FY 2014-15 began with a \$105,000 deficit – the same deficit as the previous year.

It was agreed by all those at the January site visit that with all things remaining equal and constant that the district would exhaust all funds within two years.

POST 2011-12 AUDIT FINANCIAL REVIEW **(2012-13 & 2013-14 AUDITS, 2014-15 BUDGET)**

For FY 2010-11 and FY 2011-12 the district operated within its means, although on artificial terms as identified above. However, beginning FY 2012-13 the District began to operate with an annual deficit as operating expenses increased while revenues decreased. A copy of the FY 2012-13 audit is included as Attachment #2 to this report.

The first chart below shows the District's activities including revenue detail, expenditure detail, and fund balance. As shown, revenues have experienced minor fluctuations; however, expenditures related to fire operations, particularly compensation, have increased significantly, coupled with paying unbudgeted monies to rectify the proper closing of grants and OSHA issues.

As a result, the change in fund balance for the past three audited years has been 4.2%, (16.9%), and (23.9%). The adopted budget for 2014-15 began with roughly a \$105,000 deficit – the same deficit as the previous year. A copy of the FY 2014-15 budget is included as Attachment #3 to this report.

The subsequent charts show fiscal data, each showing a downward trend.

MORONGO VALLEY CSD				
	2011-12 Actual	2012-13 Actual	2013-14 Actual	2014-15 Budget
Revenues:				
Property tax	366,739	365,836	363,061	360,452
Fire assessment	286,528	292,076	313,913	300,535
Grant income	31,971	10,425	11,517	3,500
Fire service				
Cost Recovery	400	1,110	1,818	6,000
OES Reimbursement	-	7,602	22,270	15,000
Fire Inspections	325	510	1,394	2,500
Donations	817	2,193	9,792	400
Other	-	3,526	-	2,400
Total Fire Service	1,542	14,941	35,274	26,300
Park revenue	3,332	4,280	9,398	5,000
Other	22,290	6,799	5,500	11,834
Total Revenues	\$ 712,402	\$ 694,357	\$ 738,663	\$ 707,621
Expenditures:				
General government	169,161	181,719	189,608	120,123
Fire operations				
Operating Supplies	15,463	17,725	15,812	17,650
Training & Safety	5,626	24,467	35,592	33,550
Administration	23,474	21,497	41,001	34,525
Apparatus	94,365	59,309	64,253	64,900
Compensation	342,753	398,366	448,410	495,031
Total Fire Operations	481,681	521,364	605,068	645,656
Park & recreation	22,315	33,523	46,520	37,850
Streetlights	4,030	4,237	4,039	4,000
Debt service/replacement	12,313	1,456	5,818	5,816
Total Expenditures	\$ 689,500	\$ 742,299	\$ 851,053	\$ 813,445
Revenues less Expenditures:	\$ 22,902	\$ (47,942)	\$ (112,390)	\$ (105,824)
Fund Balances, Beginning	542,444	517,511*	469,569	357,179
Fund Balances, Ending	\$ 565,346	\$ 469,569	\$ 357,179	\$ 251,355
Change from prior year	4.2%	-16.9%	-23.9%	-29.6%
* 2012-13 Fund Balance had adjustment to Beginning Balance of (\$47,836)				

Assessed Value and Property Tax

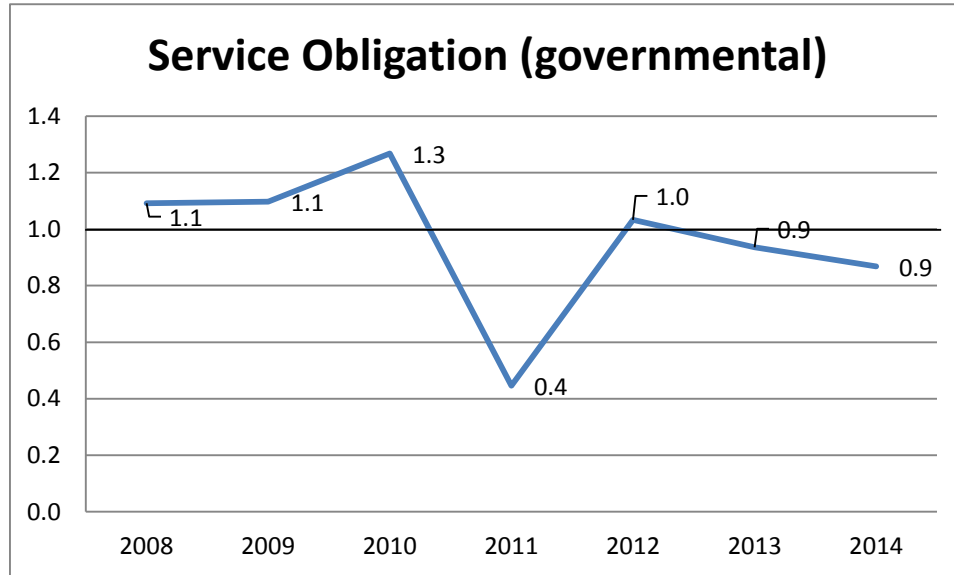
As shown below, assessed value declined for five consecutive years which led to a corresponding decline in property tax revenues received. As this revenue source is relatively stable and lags about two years behind changes in market conditions, this indicator can potentially illustrate the level of stability of an agency's revenue base. However, this is particularly problematic when the overall tax base is capped at a maximum two percent growth under Proposition 13 (not to include property sales) and while districts experienced decreasing property values. Increases in costs for labor and benefits, training, replacement of equipment and facilities all have grown at a rate greater than two percent.

However, the fire assessment is not tied to assessed value and enjoyed annual gains over the same timeframe.

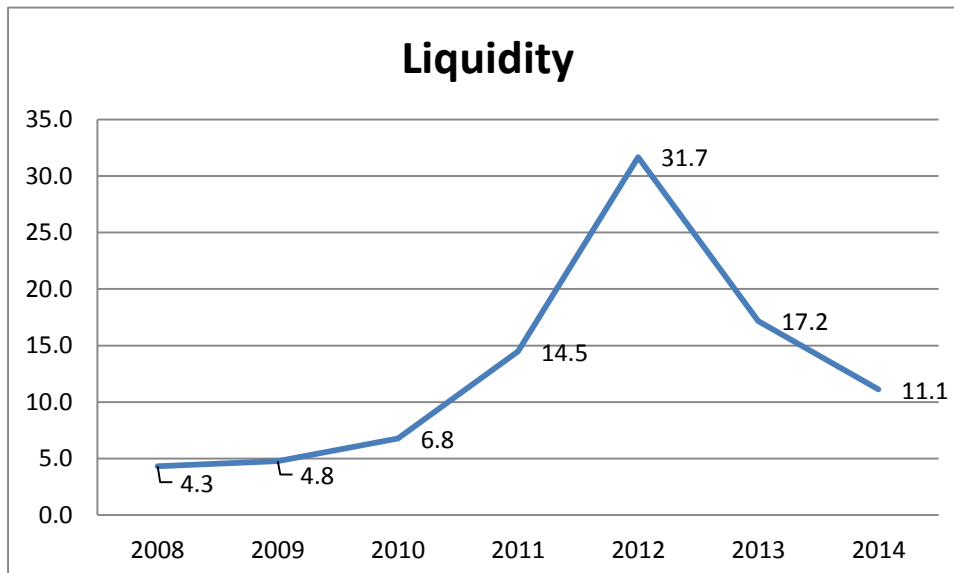
Year	Assessed Value		Tax Received		Assessment Received	
	Valuation	% change	Total Tax	% change	Total	% change
2007-08	\$ 219,980,152	16.8%	\$ 438,520	15.2%	\$ 214,573	7.4%
2008-09	\$ 226,288,922	2.9%	\$ 439,874	0.3%	\$ 263,798	22.9%
2009-10	\$ 211,888,756	-6.4%	\$ 420,263	-4.5%	\$ 269,762	2.3%
2010-11	\$ 194,095,885	-8.4%	\$ 383,400	-8.8%	\$ 280,605	4.0%
2011-12	\$ 186,380,022	-4.0%	\$ 366,739	-4.3%	\$ 286,528	2.1%
2012-13	\$ 184,029,593	-1.3%	\$ 365,836	-0.2%	\$ 292,076	1.9%
2013-14	\$ 179,691,565	-2.4%	\$ 363,061	-0.8%	\$ 313,913	7.5%
2014-15	\$ 188,970,893	5.2%	\$ 369,483	1.8%	\$ 300,606	-4.2%
sources:						
County of San Bernardino, Agency Net Valuations						
Morongo Valley CSD audits, 2014-15 year-end estimate						

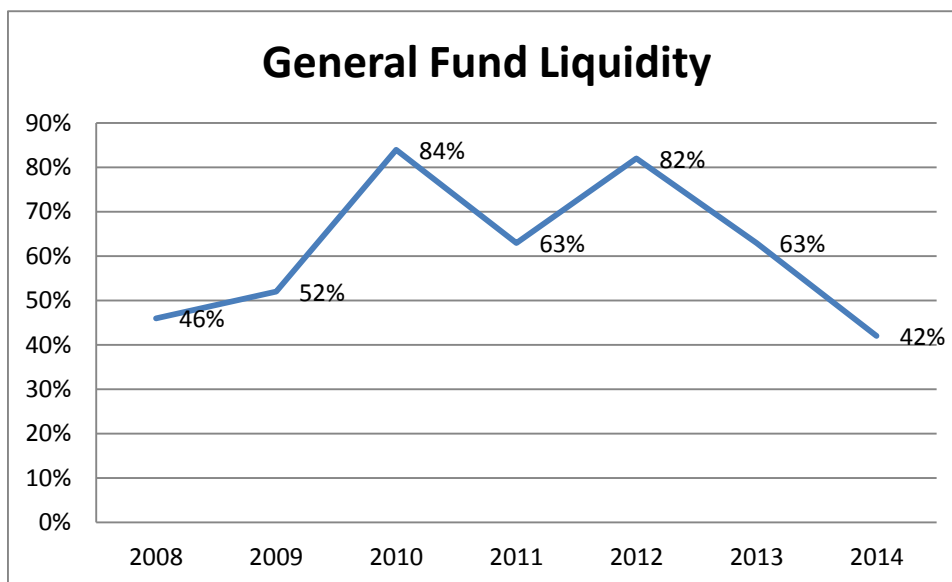
Service Obligation

Service Obligation measures whether or not a government's annual revenues were sufficient to pay for annual operations. In most cases, as the percentage of general revenues decreases, an agency loses its ability to respond to changing conditions and to citizens' needs and demands. It is calculated by dividing operating expenditures by operating revenues. A ratio of one or higher indicates that a government lived within its annual revenues.



Liquidity measures a government's ability to meet its short-term obligations. In other words, if a short-term obligation became due would the agency be able to satisfy that obligation with cash. It is calculated by dividing current liabilities by cash and investments. The higher the ratio suggests a government is better able to meet its short-term obligations. For agencies not meeting its service obligations (see previous indicator), the literature suggests a ratio of ten or above. The second figure isolates Liquidity for the General Fund of the agency (not to include fire operations).





Fire Department Staffing

Focusing on the staffing of the fire department, the district implemented a top-heavy staffing model, as shown in the figure below.

Position	2010-11	2011-12	2012-13	2013-14	2014-15
Chief	1	1	1	1	1
Deputy Chief	0	0	0	0	0
Division Chief	1	1	0	0	0
Captain	0	0	1	2	3
Full time fire fighters/paramedics	2	2	2	3	3
Part time fire fighters/paramedics	1	1	1	0	0
Full time engineers	2	2	2	3	3
Part time engineers	1	1	1	0	0
Emergency Medical Services Coordinator	0	0	0	1	1
Reserves	5	5	7	14	14
Personnel Cost	\$ 276,682	\$ 280,062	\$ 300,222	\$ 332,222	\$ 404,051

The position voiced to LAFCO staff by some related to the district that higher fire call volume necessitated the increase in fire personnel. As shown in the chart below, overall response calls increased from 2011 to 2014 by 20%. Looking closer at the response data, the vast majority of the call increase is related to medical aid calls, which generally comes from district residents, rather than increased traffic as voiced by some in the community.

Call Type	2011	2012	2013	2014
Medical Aid	290	321	357	380
Traffic Collisions	64	51	63	58
Fire Residential	12	14	26	29
Fire Commercial	18	13	14	7
Fire Vehicle	9	16	16	13
Fire Debris	11	17	6	14
Fire Wildland	14	17	11	27
Fire Refuse	0	0	0	0
Public Assistance	34	41	34	29
Investigation	44	71	34	31
Hazard Materials	5	7	9	6
Other	3	4	15	9
TOTAL	504	572	585	603

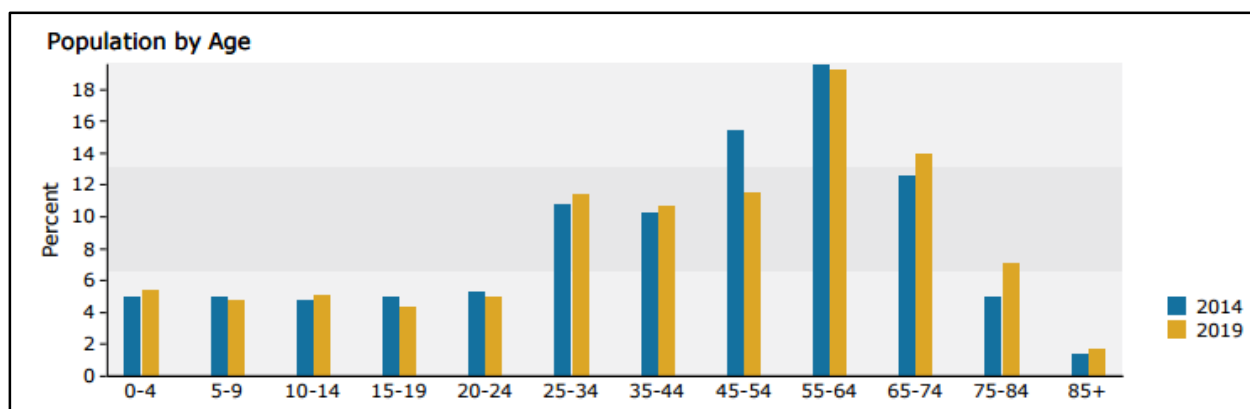
As to why medical call increased by 20% during this timeframe is not readily evident. A review of traffic count data from the State Department of Transportation identifies virtually no change in average daily traffic volume (20,500 daily trips) or hourly peak flow (2,050) since 2008 at the intersection of Highway 62 and Pioneer/East Drives.⁴ Therefore, an increase in traffic has not been a factor in the increase of fire operations. The map included as Attachment #4 to this report illustrates the average daily traffic volume along Highway 62.

Further, from 2000 to 2014 the total population of Morongo Valley has increased less than one percent annually and nominally in raw numbers by 460. Population projections through 2019 continue at less than one percent annual growth rate. Therefore, population growth has not been a factor in the increase of fire operations.

Census			Estimate	Projection
1990	2000	2010	2014	2019
2,631	3,130	3,543	3,590	3,682

The population distribution by age, skewed towards ages 45-74, may signify the high number of medical calls but not necessarily the increase in medical calls. Nonetheless, even with the increase in medical aid calls, the increase in staffing has strained the resources of the district while revenues have not increased in kind.

⁴ California Department of Transportation. Traffic Census. <http://traffic-counts.dot.ca.gov>. Accessed 21 April 2015.



Source: U.S. Census Bureau, Census 2010 Summary File 1. Esri forecasts for 2014 and 2019.

POST 2012 AUDIT FINANCIAL REVIEW **(2014-15 YEAR-END ESTIMATE AND 2015-16 ADOPTED BUDGET)**

District Taking Action

The District board in general and the general manager in particular have been aware of the financial situation and have taken measures to reduce costs during FY 2014-15. During the budget cycle for FY 2015-16, the most pressing issue to face the district for some time was to adopt a sustainable budget.

The general manager has voluntarily reduced the compensation of her position more than once as well as additional scrutiny of all expenditures. Further, the fire chief entered worker's compensation in the second half of the year, resulting in roughly two-thirds of the fire chief salary being paid from worker's compensation insurance. As for revenues, the district responded to calls from the State to engage in wild land fires; these responses resulted in reimbursement to the district of \$94,769.

The district has acknowledged that the structure of its fire personnel has been top-heavy for the past few years. The figure below illustrates the fire personnel activity with cost since 2010-11 with the budgeted activity for 2015-16. As shown, the district has restructured its fire staffing. As a part of its 2015-16 budget, but implemented in April 2015, the district has moved from four personnel on all calls to three personnel.

Position	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Chief	1	1	1	1	1	1
Deputy Chief	0	0	0	0	0	1
Division Chief	1	1	0	0	0	0
Captain	0	0	1	2	3	0
Full time fire fighters/paramedics	2	2	2	3	3	3
Part time fire fighters/paramedics	1	1	1	0	0	0
Full time engineers	2	2	2	3	3	3
Part time engineers	1	1	1	0	0	0
Emergency Medical Services Coordinator	0	0	0	1	1	1
Reserves	5	5	7	14	14	7
Personnel Cost	\$ 276,682	\$ 280,062	\$ 300,222	\$ 332,222	\$ 404,051	\$ 327,540

It took all the expense cutting measures, the reduction in pay by the district for the fire chief due to worker's compensation, and the high amount of variable reimbursement by the State in order for the district to end 2014-15 with revenues over expenditures by an estimated \$9,468. As for the upcoming 2015-16 budget year, the district has budgeted conservatively for revenues with expenditures returning near to 2011-12 levels. It appears that the district has adopted a sustainable budget for 2015-16.

MORONGO VALLEY CSD						
	2011-12 Actual	2012-13 Actual	2013-14 Actual	2014-15 Budget	2014-15 Year-end Estimate	2015-16 Budget
Revenues:						
Property tax	366,739	365,836	363,061	360,452	369,483	369,483
Fire assessment	286,528	292,076	313,913	300,535	300,606	302,932
Grant income	31,971	10,425	11,517	3,500	15,559	10,000
Fire service						
Cost Recovery	400	1,110	1,818	6,000	2,917	4,000
OES Reimbursement	-	7,602	22,270	15,000	94,769	22,000
Fire Inspections	325	510	1,394	2,500	1,702	2,400
Donations	817	2,193	9,792	400	3,882	-
Other	-	3,526	-	2,400	17,454	-
Total Fire Service	1,542	14,941	35,274	26,300	120,724	28,400
Park revenue	3,332	4,280	9,398	5,000	5,983	5,000
Other	22,290	6,799	5,500	11,834	5,648	3,334
Total Revenues	\$ 712,402	\$ 694,357	\$ 738,663	\$ 707,621	\$ 818,003	\$ 719,149
Expenditures:						
General government	169,161	181,719	189,608	120,123	142,157	117,175
Fire operations						
Operating Supplies	15,463	17,725	15,812	17,650	9,574	11,650
Training & Safety	5,626	24,467	35,592	33,550	11,768	17,000
Administration	23,474	21,497	41,001	34,525	27,697	28,650
Apparatus	94,365	59,309	64,253	64,900	60,320	57,350
Compensation	342,753	398,366	448,410	495,031	512,960	446,458
Total Fire Operations	481,681	521,364	605,068	645,656	622,319	561,108
Park & recreation	22,315	33,523	46,520	37,850	35,067	31,050
Streetlights	4,030	4,237	4,039	4,000	4,183	4,000
Debt service/replacement	12,313	1,456	5,818	5,816	4,849	5,816
Total Expenditures	\$ 689,500	\$ 742,299	\$ 851,053	\$ 813,445	\$ 808,575	\$ 719,149
Revenues less Expenditures:	\$ 22,902	\$ (47,942)	\$ (112,390)	\$ (105,824)	\$ 9,428	\$ -
Fund Balances, Beginning	542,444	517,511*	469,569	357,179	357,179	366,607
Fund Balances, Ending	\$ 565,346	\$ 469,569	\$ 357,179	\$ 251,355	\$ 366,607	\$ 366,607
Change from prior year	4.2%	-16.9%	-23.9%	-29.6%	2.6%	0.0%
* 2012-13 Fund Balance had adjustment to Beginning Balance of (\$47,836)						

LAFCO FIVE-YEAR FORECAST

Utilizing conservative revenue growth (two percent annual increase in property tax receipts) and inflation to categories sensitive to inflation, LAFCO staff provides a forecast for the next five years. As shown, the forecast for 2017 and 2018 does not result in even nominal annual revenue gains – the forecast is basically a break-even scenario. As identified for the

FY 2014-15 estimated year-end, it took painstaking measures and additional State reimbursement revenue to barely break-even for the year. In 2019 the outstanding loan for the fire admin vehicle matures and the roughly \$5,800 annual burden is removed.

MORONGO VALLEY CSD						
	2015-16 Budget	2016-17 LAFCO Forecast	2017-18 LAFCO Forecast	2018-19 LAFCO Forecast	2019-20 LAFCO Forecast	2020-21 LAFCO Forecast
Revenues:						
Property tax	369,483	376,873	384,410	392,098	399,940	407,939
Fire assessment	302,932	308,991	315,170	321,474	327,903	334,461
Grant income	10,000	10,000	10,000	10,000	10,000	10,000
Fire service						
Cost Recovery	4,000	4,000	4,000	4,000	4,000	4,000
OES Reimbursement	22,000	22,000	22,000	22,000	22,000	22,000
Fire Inspections	2,400	2,448	2,497	2,547	2,598	2,650
Donations	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Fire Service	28,400	28,448	28,497	28,547	28,598	28,650
Park revenue	5,000	6,000	6,500	7,000	7,000	7,000
Other	3,334	5,000	5,000	\$ 5,000	\$ 5,000	\$ 5,000
Total Revenues	\$ 719,149	\$ 735,311	\$ 749,578	\$ 764,119	\$ 778,441	\$ 793,050
Expenditures:						
General government	117,175	119,519	121,909	124,347	126,834	129,371
Fire operations						
Operating Supplies	11,650	11,883	11,882	11,881	11,880	11,879
Training & Safety	17,000	17,340	17,687	18,041	18,401	18,769
Administration	28,650	29,223	29,807	30,404	31,012	31,632
Apparatus	57,350	58,497	59,667	60,860	62,077	63,319
Compensation	446,458	455,387	464,495	473,785	483,260	492,926
Total Fire Operations	561,108	572,330	583,538	594,970	606,631	618,525
Park & recreation	31,050	31,671	32,304	32,951	33,610	34,282
Streetlights	4,000	4,000	4,000	4,250	4,250	4,250
Debt service	5,816	5,816	4,362	-	-	-
Total Expenditures	\$ 719,149	\$ 733,336	\$ 746,113	\$ 756,518	\$ 771,324	\$ 786,427
Revenues less Expenditures:	\$ -	\$ 1,976	\$ 3,464	\$ 7,601	\$ 7,117	\$ 6,623
Fund Balances, Beginning	366,607	366,607	368,583	372,047	379,648	386,765
Fund Balances, Ending	\$ 366,607	\$ 368,583	\$ 372,047	\$ 379,648	\$ 386,765	\$ 393,388
Change from prior year	0.0%	0.5%	0.9%	2.0%	1.9%	1.7%

Caveats

The projections identified in the figure above assume that funding, equipment, and personnel remain equal and constant. However, four variables can result in budget challenges for the district, ranging from severe to moderate.

1. Replacement of Current Fire Truck. According to the CSD's website, "Morongo Valley does not have enough financial resources to purchase a critically needed 4 x 4 all-terrain fire/medic engine to replace the current engine". The district fire truck is a 2001 model with roughly 100,000 miles, and the backup is a 1992 truck. The district does not have enough funds to outright purchase a truck and given its financial condition it would not be prudent to lease or enter into a purchase loan. Realizing its predicament, the district is holding funding campaigns as well as allowing advertisement on the trucks to gain additional revenue. Should the district gain significant additional funds from funding campaigns, advertisement, or reimbursement from the State for sending strike teams to wild land fires, the burden of a new fire truck would be lessened. (\$500,000)
2. Wild land Fire Truck is Recalled. A federal program provides the district with a wild land fire truck (brush engine) for use in wild land fires. The terms of the arrangement stipulate that the district can request reimbursement for its response to wild land fires. Additionally, the district may only use the truck for domestic response (structure fires, medical) for only 20% of the truck's use. Should the federal program cease, the recall of the brush engine would remove a revenue source as well as remove a backup fire truck.
3. Replacement of Current General Manager. The current general manager has voluntarily decreased her salary by roughly \$15,000 in order to balance the budget. Should the need arise to fill the position, returning the salary to the previous figure may be necessary to recruit a general manager with the skill level required of the position.
4. Any other Major Expense. There is little to no room for any other major expense such as a new roof or replacement of the fire admin vehicle. Due to the age of the facilities and the recent actions to rectify deferred maintenance (trimming trees and reroofing of three facilities), it is a matter of when, not if, major expenses will occur.

As it should have, the district did not adopt its 2015-16 budget anticipating variable revenues in large amounts. Rather, it prudently adopted what appears to be a sustainable budget. Should the demise of the fire truck necessitate action before adequate funds are available to either outright purchase or mitigate the financial effects of such a purchase, then the sustainability of the district and the adequacy of its fire protection and emergency response services would be of paramount concern.

Thinking Ahead

In addition to fund raising and possible advertisement on the trucks, the district is entering into discussions with Copper Mountain College in Joshua Tree whereby the college's fire

program would train and pay for entry level fire personnel for the district as part of a college credit/work program. If this possibility comes to fruition, it would add flexibility to the district's strained budget.

OPTIONS FOR FUTURE ACTION:

This special study does not include a service review or sphere of influence update. Therefore, there is no mandatory action for the Commission to take other than receive and file this report.

However, should the Commission choose, it can initiate a sphere of influence review to include analysis of designating of a zero sphere of influence, thereby signaling that a future change of organization take place. By designating a zero sphere, the Commission's desire would be that an overlying or adjacent agency would potentially assume the district's services:

- San Bernardino County Fire Protection District and its South Desert Service Zone (adjacent - fire protection and emergency medical response)
- County Service Area 70 (overlying - park and recreation, streetlights)

Realistically, assumption of fire protection and emergency medical response by County Fire may result in a decrease of service since the property tax generated within the district's boundary may not be adequate for County Fire to operate the Morongo Valley station as a full-time staffed station.

Rather, it is hoped that the district continues to govern with realistic service expectations. LAFCO staff's position is that the Commission continues to monitor the district's financial position and sustainability for the next three years by requesting the district to provide LAFCO with its adopted annual budget, mid-year financial report, and financial statements.

CONCLUSION:

The cost cutting measures taken by the district which included reorganization of the fire department staffing have staved off further declines in its fund balance. As it should have, the district did not adopt its 2015-16 budget anticipating variable revenues in large amounts. Rather, it prudently adopted what appears to be a sustainable budget. Should the demise of the fire truck necessitate action before adequate funds are available to either outright purchase or mitigate the financial effects of such a purchase, then the sustainability of the district and the adequacy of its fire protection and emergency response services would be of paramount concern.

Should the district desire to increase the levels of its current services or expand the range of services, additional revenue sources would need to be obtained. The district should consider placing a ballot measure to convert its current benefit assessment into a special tax with an annual inflation factor as a special tax would not be subject to an annual engineering report and annual exposure to being challenged. Further, an election to

convert the assessment to a special tax could request an increased tax in order to augment fire protection and paramedic service. The District indicates that consideration of any ballot measure would not take place until all the mechanisms are in place to ensure that it annually operates with a sustainable budget and properly governs within that budget.

For this special study LAFCO staff recommends that the Commission:

- Continue to monitor the Morongo Valley Community Services District's financial position and sustainability by requesting the district to provide LAFCO with its adopted annual budget, mid-year financial report, and financial statements for the next three years, and
- Direct LAFCO staff to monitor and update the Commission biannually for the next three years regarding the district's financial position and sustainability.

As a part of the next scheduled service review for the district, LAFCO will review the district's progress on the matters identified in this special study. Further, as a part of the 2012 service review/sphere update, the Commission expanded the district's sphere to the west based upon discussion with the district that it provided fire and emergency response to the area under agreement with the County. It appears that there is no automatic agreement for this area and the response is simply that of mutual aid, which would not necessitate an expanded sphere. Unless this circumstance changes, as a part of the district's next service review a sphere reduction to reflect its service area will be evaluated.

KRM/MT

Attachments:

1. [Letter to LAFCO dated August 11, 2014 from a Director of the Morongo Valley CSD](#)
2. [FY 2013-14 and 2012-13 Financial Statements](#)
3. [FY 2015-16 Adopted Budget](#)
4. [Traffic Count Map](#)
5. [LAFCO Resolution No. 3168 Reflecting Determinations for LAFCO 3151 from November 2012 - Service Review and Sphere of Influence Update for the Morongo Valley Community Services District](#)

**Morongo Valley CSD
Resolution Calling for Election**

Attachment 4



COMMUNITY SERVICES DISTRICT & FIRE DEPARTMENT

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February 1, 2016

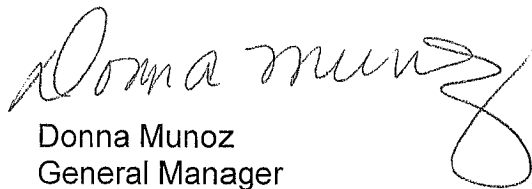
LAFCO
San Bernardino County

LAFCO
Michael Turpe
215 "D" Street #204
San Bernardino, CA 92415-0490

To Whom It May Concern:

Enclosed please find a copy of the following:

RESOLUTION NO. 1-1-16 APPROVED AT BOARD MEETING JANUARY 19,
2016.


Donna Munoz
General Manager

RESOLUTION NO. 1-1-2016

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE
MORONGO VALLEY COMMUNITY SERVICES DISTRICT
CALLING AN ELECTION ON JUNE 7, 2016, TO CONVERT
EXISTING PROPERTY ASSESSMENT INTO AN INCREASED SPECIAL TAX;
ESTABLISHING A DEADLINE DATE FOR RECEIPT OF WRITTEN
ARGUMENTS FOR AND AGAINST THE MEASURE;
AND REQUESTING CONSOLIDATION WITH ANY AND ALL ELECTIONS
TO BE HELD IN THE SAME TERRITORY ON THAT SAME DATE**

WHEREAS, the Morongo Valley Community Services District ("the District") is a Community Services District located within the County of San Bernardino and organized and operating pursuant to California Government Code Section 61000 et seq.; and

WHEREAS, the District is currently authorized by the Local Agency Formation Commission for San Bernardino County ("LAFCO") to provide the functions of streetlighting, fire protection, park and recreation, and library service;

WHEREAS, in response to declining numbers of volunteer firefighters and community concerns regarding lengthy response times by the ambulance assigned to the area, the District's Board of Directors ("Board") adopted Resolution Nos. 02-07 and 02-09 on May 23, 2002, proposing the formation of a fire suppression district and the establishment of a property benefit assessment pursuant to Government Code Section 50078 et seq.;

WHEREAS, the District conducted an assessment ballot proceeding on August 6, 2002, in accordance with the provisions and requirements of Article XIID of the California Constitution, and the electorate approved the Morongo Valley Fire and Rescue Assessment ("the Assessment");

WHEREAS, the amount of the Assessment levied on real property within the District is allocated based upon the relative benefit to the property in relation to a single family home, the type of property, and its size, adjusted for inflation capped at three percent (3%) each year;

WHEREAS, beginning in 2014, LAFCO conducted a special study of the District's finances and on July 1, 2015, issued a report recommending that the District consider placing a ballot measure to convert its current benefit assessment into an increased special tax, with an annual inflation factor, in order to augment the District's fire protection and paramedic service;

WHEREAS, the Board subsequently formed the Fire Department Funding Committee ("Committee") which conducted several open and public meetings and received community input concerning various financing options to fund the District's fire protection and paramedic services;

WHEREAS, the Committee has recommended to the Board that the Assessment be converted into a special tax in the amount of \$350 each year, adjusted for inflation, to be assessed on all taxable real property within the District; and

WHEREAS, it is the desire of the Board to conduct an election on June 7, 2016, for the purpose of converting the Assessment into an increased special tax, to request consolidation with any and all other elections to be held in the same territory on that same date, and to assist the County of San Bernardino as necessary to assure consolidation.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Morongo Valley Community Services District as follows:

1. An election shall be conducted within the District on June 7, 2016, to submit to the voters a measure to convert the Assessment into a special parcel tax of \$350 per year, adjusted for inflation, on all taxable real property within the District.
2. Measure " _____ " to be submitted to the voters shall be as follows:

Measure " _____ " Shall the Morongo Valley Fire and Rescue Assessment be converted into a special parcel tax of \$350 per year, adjusted for inflation, to use in funding fire protection and paramedic services provided by the Morongo Valley Community Services District?	YES	
	NO	

3. Measure "_____" shall pass only if approved by two-thirds of the qualified voters voting in an election to be held on June 7, 2016, and the special tax described herein shall be deemed established and shall be in effect as of the day following the election, upon certification by the San Bernardino County Registrar of Voters of the election results evidencing such approval. In the event Measure "_____" shall not pass, the Assessment shall remain in full force and effect.
4. If approved, the special tax shall be levied against all taxable real property within the District beginning with the 2016-17 fiscal year. The special tax shall be used solely for the purpose of providing fire suppression, protection, prevention, rescue, advance life support paramedics, and other emergency services within the District which the District is authorized by law to provide, for any responses outside of the District under mutual aid agreements with other fire suppression or emergency service agencies, and for any incidental expense relating thereto including expenses related to the collection of the tax.
5. The special tax shall be deemed to be automatically levied as of the date of July 1 of each year, beginning with July 1, 2016. Unless otherwise ordered pursuant to a resolution adopted by the Board, the special tax shall annually be adjusted for inflation each fiscal year based upon the consumer price index for the Los Angeles / Riverside / Orange County region taken from the United States Department of Labor, and shall be collected on the County of San Bernardino property tax bill in the same manner, and subject to the same penalty, as the county property taxes are collected. The Board shall annually take such steps as are necessary to have the special tax collected through the property tax bill and shall coordinate with the County Auditor and the County Tax Collector in this regard.
6. The deadline date of March 24, 2016, at 5:00 p.m., is hereby established for receipt of written arguments for or against the Measure. The deadline date of March 29, 2016, at 5:00 p.m., is hereby established for the receipt of rebuttal arguments. Written arguments and rebuttals may be submitted by a member of the District's Board of Directors, any voter or bona fide association of

voters within the District, or any combination thereof. Written arguments shall not exceed 300 words in length, and rebuttals shall not exceed 250 words in length. Such arguments and rebuttals shall be filed with the San Bernardino County Registrar of Voters located at 777 E. Rialto Avenue, San Bernardino, California 92415-0770. The written arguments and rebuttals must be accompanied by Statement Form 9600. For information, call: Donna Munoz, General Manager of the District, at (760) 363-6454, during regular business hours.

7. The San Bernardino County Board of Supervisors is hereby requested to order that the election on this Measure be consolidated with any and all elections in the same territory to be conducted on June 7, 2016, and that the San Bernardino County Registrar of Voters conduct the election for the District. The District shall reimburse the County of San Bernardino for services rendered in connection with the election upon presentation to the District of a properly approved bill. The District shall further assist the County of San Bernardino, as needed, to prepare for and conduct the consolidated election with the District.
8. The election will be held and conducted, election officers appointed, voting precincts designated, ballots printed, polls opened and closed, ballots counted and returned, returns canvasses, results declared, certificates of election issued and all of the proceedings incidental to and connected with the election shall be regulated and done in accordance with the provisions of law regulating the election with which the District election is consolidated.
9. The Secretary of the District's Board of Directors is hereby instructed to file certified copies of this Resolution with the Clerk of the Board of Supervisors of San Bernardino County and with the San Bernardino County Registrar of Voters on or before 5:00 p.m. on March 11, 2016. The Secretary shall also cause this Resolution to be published in the Hi-Desert Star, a newspaper of general circulation printed and published in the District. The District's General Manager and legal counsel are authorized and instructed to take such

further action as may be necessary in preparing for and conducting the consolidated election.


ADOPTED this 19th day of January, 2016.

AYES: SWARAT, TOLBERT, CAMPOS, BRODIE

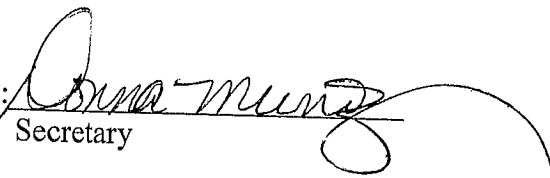
NOES: LOWE

ABSTAIN: 0

ABSENT: 0



President, Board of Directors

ATTEST: 
Secretary

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

215 North D Street, Suite 204, San Bernardino, CA 92415-0490
(909) 388-0480 • Fax (909) 885-8170
E-MAIL: lafco@lafco.sbcounty.gov
www.sbclafco.org

DATE: MARCH 9, 2016

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #7 – Continuation of Status Report on Rim of the World
Recreation and Park District

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of the Status Report and file; and,
2. Set another status report for presentation at the August 2016 hearing.

BACKGROUND:

Item 11 on the February 17 hearing was the Status Report for Rim of the World Recreation and Park District. Due to time constraints, the item was continued to the March 16, 2016 hearing. The contents of the report and its attachments are included below as originally provided for the February hearing as no new information was received in the interim.

At the July 2010 hearing the Commission completed its service review for the Rim of the World Recreation and Park District ("District") through adoption of Resolution No. 3095. The Commission identified a number of financial issues which prompted it to question the District's financial solvency at that time. The District has satisfied all of the conditions outlined in the Commission's resolution from the service review, and many of the questions and concerns identified by the Commission are being addressed.

At the March 2015 scheduled update, the Commission determined that it would be prudent to continue monitoring the District for one additional year. As indicated in the staff report from March 2015, although the District has made great strides in operational management and its finances, the Commission should review another year's worth of data since it takes a few years for changes to come to fruition such as management changes at the District, hiring of a financial position, and assimilating budget cuts.

The following is the conclusion from the previous status update, August 2015.

The District's financial situation seems to be improving after years on unsure ground. The District has made strides in its financial reporting, and the hope is that continuing attention to its governance and financial issues will preclude the problems of the past from resurfacing as its special tax is a flat rate without benefit of inflationary increases. However, more understanding and timely reporting of reserves and fund balances are needed as well as assurances that maintenance of the District's facilities are not being defunded.

The District has two more status reports scheduled: February 2016 (2014-15 audit and 2015-16 mid-year) and August 2016 (2015-16 year-end and 2016-17 budget).

CURRENT UPDATE ANALYSIS:

This status update will review the FY 2014-15 audit and FY 2015-16 mid-year position to include reporting of its reserves and fund balances.

FY 2014-15 Audit and Fiscal Indicators

The District provided LAFCO staff with its FY 2014-15 year-end estimates for the August status update. Therefore, the Commission is aware of the financial status of the District up to that point. The following is a review of the District's financial position from its audited financial statements. On the whole, the financial position of the District is improving and the following information points to sustainability.

Fund Balance

For the past four years, the fund balance of the District has improved. In turn, reserve levels exceed the minimum recommended level of 10% of expenditures. As of June 30, 2015, the decrease in patronage of the District's childcare service has leveled.

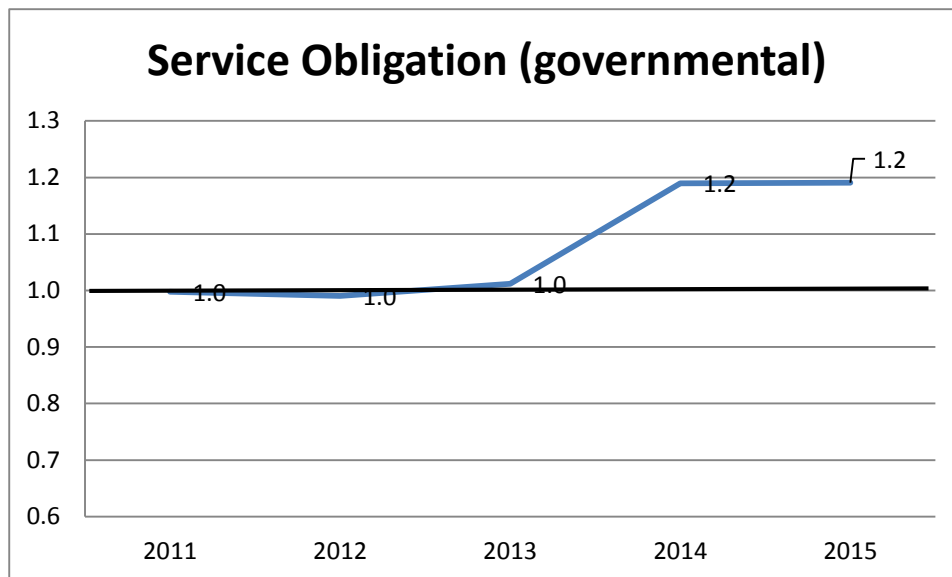
	AUDITS			
	For the Year Ended June 30			
	2011-12	2012-13	2013-14	2014-15
	Restated	Restated		
REVENUE				
Special Tax Proceeds	\$736,369	\$757,828	\$769,139	\$784,182
Delinquent Tax and Interest	9,762	9,370		
Rents and Concessions	74,695	80,932	96,627	93,864
Intergovernmental	39,950			
Charges for Service:				
Recreation	144,800	158,881	151,436	128,444
Childcare	179,111	141,512	108,025	109,010
Contributions and Donations	470		3,280	5,018
Other	8,254	2,495	9,964	4,313
TOTAL REVENUES	\$1,193,411	\$1,151,018	\$1,138,471	\$1,124,831
EXPENDITURES				
Administration:				
Salaries and Benefits	\$264,961	\$310,312	\$322,206	\$341,618
Services and Supplies	266,803	167,010	130,325	141,594
Utilities	74,540	83,960		
Total Administration	606,304	561,282	452,531	483,212
Recreation				
Salaries and Benefits	51,734	48,832	25,436	31,572
Services and Supplies	98,394	230,062	270,435	207,177
Total Recreation	150,128	278,894	295,871	238,749
Child Care:				
Salaries and Benefits	149,828	129,979	133,152	114,939
Services and Supplies	31,426	16,564	10,259	23,527
Utilities	1,826	2,064		
Total Child Care	183,080	148,607	143,411	138,466
Debt Service				
Principal	214,679	115,639	33,392	56,650
Interest	34,894	33,100	31,778	27,471
Total Debt Service	249,573	148,739	65,170	84,121
TOTAL EXPENDITURES	\$1,189,085	\$1,137,522	\$956,983	\$944,548
OTHER FINANCING				
Insurance Recovery		89,066		
Issuance of debt				500,000
Refunding of debt				(491,311)
GAIN (LOSS)	4,326	13,496	181,488	188,972
Beginning Fund Balance	175,000	179,326	219,339	400,827
Ending Fund Balance	\$179,326 *	\$219,339 *	\$ 400,827	\$ 589,799
* Ending Fund Balance restated				
RESERVES				
Non Spendable				
Prepaid Expenses				2,562
Assigned				
Operating			39,410	39,410
Capital replacement			7,200	7,200
Capital acquisition			24,000	24,000
Unassigned	179,326	219,339	330,217	516,627
Total Fund Balance	\$179,326 *	\$219,339 *	\$ 400,827	\$ 589,799

Fiscal Indicators

Currently, LAFCO's Fiscal Indicators program includes audited data through FY 2013-14. LAFCO staff has added FY 2014-2015 for the following indicators applicable to the District: Service Obligation, Liquidity, and Debt Service.

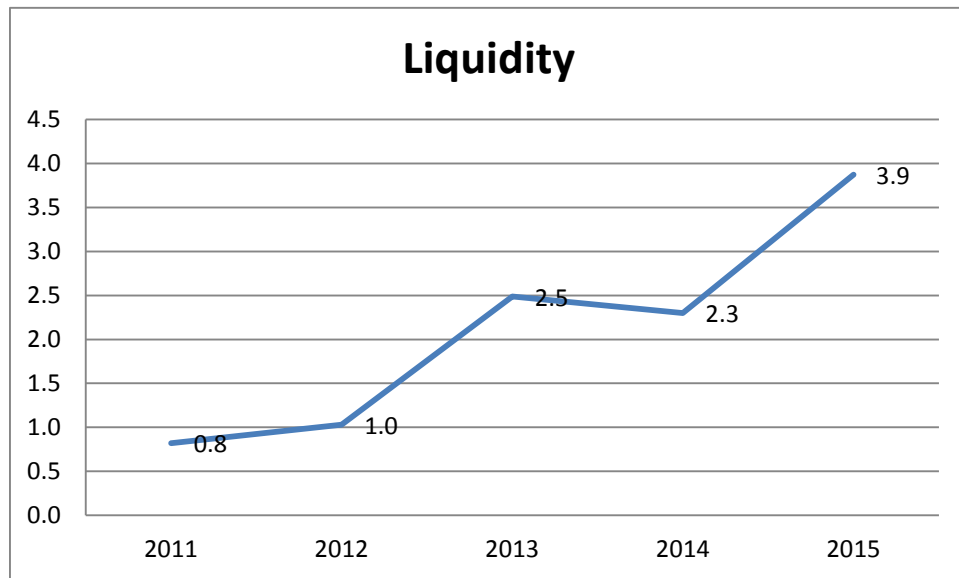
Service Obligation

Service Obligation measures whether or not a government's annual revenues were sufficient to pay for annual operations. In most cases, as the percentage of general revenues decreases, an agency loses its ability to respond to changing conditions and to citizens' needs and demands. It is calculated by dividing operating expenditures by operating revenues. A ratio of one or higher indicates that a government lived within its annual revenues. On the whole, the District shows improvement in this indicator and is not slipping below the 1.0 benchmark.



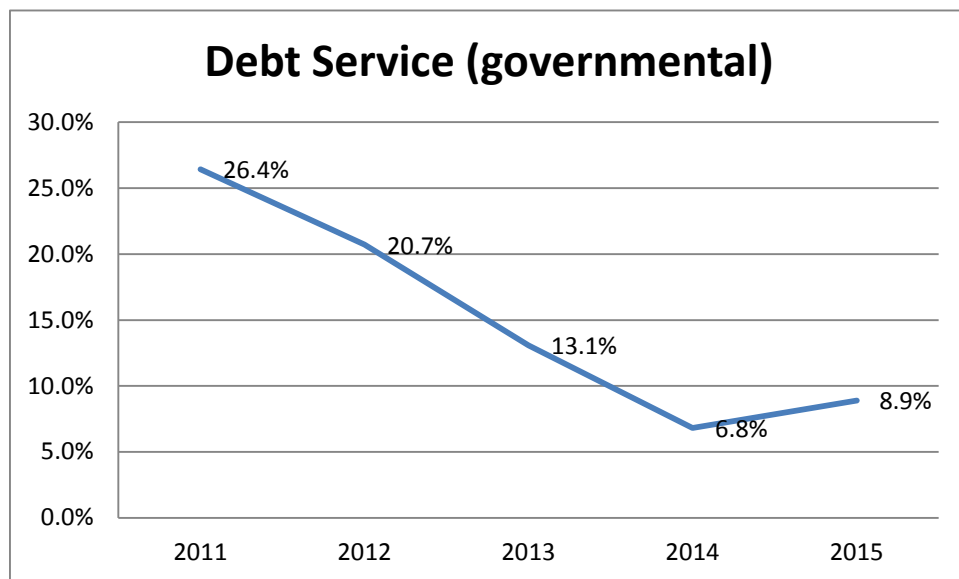
Liquidity

Liquidity measures a government's ability to meet its short-term obligations. In other words, if a short-term obligation became due would the agency be able to satisfy that obligation with cash. It is calculated by dividing current liabilities by cash and investments. The higher the ratio suggests a government is better able to meet its short-term obligations. For agencies not meeting its service obligations (see previous indicator), the literature suggests a ratio of ten or above. As shown, the District's ability to meet its obligations is improving.



Debt Service

Debt Service looks at service flexibility by determining the amount of total expenditures committed to annual debt service. It is calculated by dividing operating expenses by debt service. Service flexibility decreases as more resources are committed to annual debt service. As shown, the amount of resources that the District commits to debt service is decreasing. As a result, this is a factor in the increase in fund balance.



The reason for the decrease in this indicator is twofold: (1) slight overall increase in operating expenses, denominator, and (2) retirement of debt – loan payable to the County which expired in FY 2012-13, numerator.

In July 2014, the District refinanced its \$606,000 note payable (used to finance the purchase of the District office). The new note requires monthly payments roughly

\$1,000 less than the previous note. However, at the end of the tenth year, a balloon payment of roughly \$378,000 is due and payable. It is anticipated that this remaining amount would either be paid or refinanced.

FY 2015-16 Mid-Year

As indicated, the District's financial position is improving and the FY 2015-16 mid-year shows the same. The following is a bullet summary of its mid-year report followed by a chart showing activity by line item as recreated by LAFCO staff for formatting purposes (staff has also highlighted line items of interest).

- The District's primary source of income (special tax) is significantly surpassing budget projections. Expenses are on track through the mid-year. As a result, funds have increased by roughly \$32,000.
- Expenses that did not occur or were under budget include:
 - Costs to hold a special election to fill a vacant seat (shown as Miscellaneous Expense). The District did not receive potential candidates, so the County appointed a director (\$50,000).
 - Under budget: landscaping and other projects not needed as well as repairs that were not needed. (\$14,000). However, LAFCO staff would caution the District not to forgo maintenance for the sake of increasing fund balance.
- A significant cost to note is \$74,000 for repaving the Running Springs Senior Hootman Center parking lot and an unbudgeted cost for a deposit for outdoor park workout equipment for \$16,000.
- Due to its strengthening position, the District is considering two projects (Crestline and Green Valley Lake), according to District staff:
 - The District is collaborating with the Green Valley Mutual Water Company to install a playground on the water district's property, likely this spring. This park will be open to the public and maintained by the District. A specified reserve of \$45,000 has already been established for this project, and it is not anticipated that costs will vary greatly from the informal estimate. LAFCO staff would caution the District to review ongoing maintenance and operation costs for this project.
 - The District is currently searching for a 3 to 6-acre parcel in the Crestline area to install a neighborhood park, as that major mountain community is not as greatly represented by District presence. In addition, the District is working with the local school district to acquire space at the now vacant Lake Gregory Educational Center in Crestline to open up the gymnasium to the public, along with classrooms for sports, programs, and other activities. Although the District has no specified reserve for this purpose, funds could be allocated from a general capital acquisition reserve that currently has a balance of \$200,000, if needed.

	FY 2015-16		
	Budget	Actuals	Percent
	Thru Mid-Year	Thru Mid-Year	Thru Mid-Year
Revenues			
Special Parcel Tax	453,400	423,436	93%
Childcare Income	44,000	60,947	139%
Interest	120	113	94%
Rental Income	46,875	62,613	134%
Recreation Programs Income	69,800	72,962	105%
Other Income	180	2,170	1206%
Convenience/Other Fee Income	-	13	
Grant Income	-	6,770	
Donations	1,750	1,050	60%
Total Income	616,125	630,074	102%
Expenses			
Compensation & Benefits	283,112	275,558	97%
Advertising	8,496	6,557	77%
Bank Charges	2,225	2,035	91%
Board Member Expense	150	-	0%
Communications	5,010	5,999	120%
Equipment and Supplies	8,448	3,830	45%
Auto Expense	5,900	3,212	54%
Professional Services	30,890	23,693	77%
Program Instructors	27,714	24,576	89%
Special Programs	3,180	4,658	146%
Special Event Programs	19,750	18,685	95%
License Fees	-	242	
Insurance	28,075	30,393	108%
Childcare Expense	4,495	4,833	108%
Building Loan Pymt - DO	24,360	24,347	100%
SB CERA Retirement Association	16,740	16,730	100%
Meals & Entertainment	300	546	182%
Memberships	5,060	5,147	102%
Mileage	750	1,260	168%
Miscellaneous Expense	50,000	-	0%
Rent/Lease of Equipment	4,250	2,710	64%
Postage	510	239	47%
Facilities Rental Charge	4,200	4,200	100%
Facility Repairs & Maintenance	22,046	102,829	466%
Training and Travel	2,980	1,930	65%
Utilities	32,545	26,579	82%
Trash - SB County Waste Mgmt	4,680	3,132	67%
Equipment Repairs & Maintenance	3,930	3,763	96%
Petty Cash - Over (Short)	-	(5)	
Total Expense	599,796	597,678	100%
Net Over (Under)	\$ 16,329	\$ 32,396	

The District is also currently working with the Lake Arrowhead Dam Commission (County Service Area 70 Zone D-1) to take over, at no cost, the McKay Park by July 1 of this year. Only small additional expenses can be expected in ongoing regular maintenance of this already existing park. According to the District, it would be responsible for insurance costs, but since it is under a state-wide umbrella plan, adding a small property should not make any difference in its premium. Cost for repairs and maintenance would not be expected to appear for some time as the equipment is fairly new. LAFCO staff notes there is the possibility of the transfer of a small share of the CSA 70 D-1 ad valorem revenues to provide for future needs.

CONCLUSION:

The FY 2014-15 audit shows an improving financial position of the District, and the FY 2015-16 mid-year report does not reveal any areas of concern. The District has one more status report scheduled: August 2016 (2015-16 year-end and 2016-17 budget). This last update will include LAFCO staff's update to its five-year financial projections based upon the District's unaudited year-end figures.

KRM/MT

Attachments:

1. FY 2014-15 Audit
2. FY 2015-16 Mid-Year Report with Spreadsheet

FY 2014-15 Audit

Attachment 1



RIM OF THE WORLD
RECREATION & PARK DISTRICT

**Parks
Make
Life
Better!**

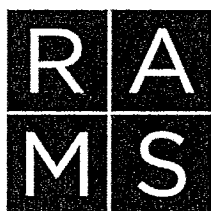


**Financial Statements and
Independent Auditor's Report**

For the year ended June 30, 2015

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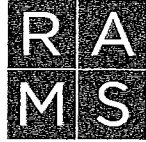
LAFCO
San Bernardino County



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

**Rim of the World Recreation and Park District
Basic Financial Statements
Table of Contents**

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet - Governmental Fund	11
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	14
Notes to the Basic Financial Statements	15
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	28
Notes to Required Supplementary Information	29



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Rim of the World Recreation and Park District

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Leena Shanbhag, CPA, MST, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

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Bradford A. Welebir, CPA, MBA

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Gardenya Duran, CPA
Juan Romero, CPA
Ivan Gonzales, CPA, MSA
Brianna Pascoe, CPA

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the Rim of the World Recreation and Park District (District), California as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America as well as the State Controller's *Minimum Audit Requirements for California Special Districts*; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Certified Public Accountants

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Rim of the World Recreation and Park District as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Rogers Anderson Maloney & Scott, LLP

San Bernardino, California
October 20, 2015

**Rim of the World Recreation and Park District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Rim of the World Recreation & Park District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 10.38% or \$169,427 to \$1,801,381 in 2015 as a result of current year operations.
- During the year, the District's assessment revenues increased slightly by 1.96% or \$15,043 in 2015.
- Overall, revenues decreased by 1.20% or \$13,640 to \$1,124,831 in 2015. This overall decrease was a combination of a positive increase in revenues from assessments and a decrease of \$22,992 in recreation fees.
- In the fund statements, total expenditures decreased by 1.30% or \$12,435 to \$944,548 in 2015. The decrease was a combination of administrative expenses wages increasing and a decrease in amounts paid to recreation instructors.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

**Rim of the World Recreation and Park District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

These two statements report the District's *net position* and changes in them. Think of the District's net position - the difference between assets and liabilities - as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the District's property tax base to assess the *overall health* of the District.

Governmental Funds Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Rim of the World Recreation and Park District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$1,801,381 as of June 30, 2015.

	<u>2015</u>	<u>2014</u>	<u>% change</u>	<u>\$ change</u>
Assets:				
Current and other	\$ 708,761	\$ 579,501	22.31%	\$ 129,260
Capital, net	<u>2,338,139</u>	<u>2,398,927</u>	-2.53%	(60,788)
Total assets	<u>3,046,900</u>	<u>2,978,428</u>	2.30%	
Liabilities:				
Current and other	118,962	178,674	-33.42%	(59,712)
Due in more than one year	<u>1,126,557</u>	<u>1,167,800</u>	-3.53%	(41,243)
Total liabilities	<u>1,245,519</u>	<u>1,346,474</u>	-7.50%	
Net position:				
Net investment in capital assets	1,861,329	1,907,616	-2.43%	(46,287)
Unrestricted (deficit)	<u>(59,948)</u>	<u>(275,662)</u>	-78.25%	215,714
Total net position	<u><u>\$ 1,801,381</u></u>	<u><u>\$ 1,631,954</u></u>	10.38%	

\$1,861,329 of the District's net position as of June 30, 2015, reflects its investment in capital assets (net of accumulated depreciation), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to operate the District; consequently, these assets are *not* available for future spending. At the end of fiscal year 2015, the District showed a deficit balance in its unrestricted net position of \$59,948.

**Rim of the World Recreation and Park District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

The statement of activities shows how the government's net position changed during the fiscal year. In the case of the District, net position increased by \$169,427 for the fiscal year ended June 30, 2015.

Revenues:	2015	2014	% change	\$ change
Program revenues				
Charges for services	\$ 1,115,500	\$ 1,125,227	-0.86%	\$ (9,727)
Operating grants and contributions	5,018	2,280	100.00%	2,738
Capital grants and contributions	-	1,000	-100.00%	(1,000)
General revenues				
Investment earnings	935	14	100.00%	921
Other	3,378	9,950	-66.05%	(6,572)
Total revenues	1,124,831	1,138,471	-1.20%	(13,640)
Expenses				
Administration	497,145	466,210	6.64%	30,935
Recreation	285,593	348,971	-18.16%	(63,378)
Child care	145,047	148,652	-2.43%	(3,605)
Interest expense	27,619	31,778	-13.09%	(4,159)
Total expenses	955,404	995,611	-4.04%	(40,207)
Special item - withdrawal from pension plan	-	(669,204)	100.00%	669,204
Increase (decrease) in net position	169,427	(526,344)	-132.19%	695,771
Net position, beginning	1,631,954	2,158,298		
Net position, ending	<u>\$ 1,801,381</u>	<u>\$ 1,631,954</u>		

Governmental Funds Financial Analysis

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, the *unreserved fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of June 30, 2015, the District's Governmental Fund reported a fund balance of \$589,799, of which \$519,189 is unassigned and available for future District expenditures. \$70,610 of fund balance has been assigned for various reserve accounts.

**Rim of the World Recreation and Park District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

	<u>2015</u>	<u>2014</u>	<u>% change</u>	<u>\$ change</u>
REVENUES				
Special assessments, current and prior	\$ 784,182	\$ 769,139	1.96%	\$ 15,043
Rents and concessions	93,864	96,627	-2.86%	(2,763)
Investment earnings	935	14	100.00%	921
Charges for services:				
Recreation	128,444	151,436	-15.18%	(22,992)
Childcare	109,010	108,025	0.91%	985
Contributions and donations	5,018	3,280	100.00%	1,738
Other	3,378	9,950	-66.05%	(6,572)
Total revenues	<u>1,124,831</u>	<u>1,138,471</u>	-1.20%	(13,640)
EXPENDITURES				
Administration:				
Salaries and benefits	341,618	322,206	6.02%	19,412
Services and supplies	141,594	130,325	8.65%	11,269
Recreation:				
Salaries and benefits	31,572	25,436	24.12%	6,136
Services and supplies	207,177	270,435	-23.39%	(63,258)
Childcare:				
Salaries and benefits	114,939	133,152	-13.68%	(18,213)
Services and supplies	23,527	10,259	129.33%	13,268
Debt service:				
Principal	56,650	33,392	69.65%	23,258
Interest	27,471	31,778	-13.55%	(4,307)
Total expenditures	<u>944,548</u>	<u>956,983</u>	-1.30%	(12,435)
Excess of revenues over expenditures	180,283	181,488		
OTHER FINANCING SOURCES (USES)				
Issuance of debt	500,000	-		
Refunding of debt	(491,311)	-		
Issuance of debt - withdrawal from pension plan	-	669,204		
Total other financing sources (uses)	<u>8,689</u>	<u>669,204</u>		
SPECIAL ITEM				
Withdrawal from retirement plan	-	(669,204)		
Net change in fund balance	188,972	181,488		
Fund balance, beginning of year	400,827	219,339		
Fund balance, end of year	<u>\$ 589,799</u>	<u>\$ 400,827</u>		

Overall fund financial statement revenues decreased by 1.20%. The decrease was mainly due to the decrease in recreation fee revenues. Expenditures decreased by 1.30%.

**Rim of the World Recreation and Park District
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

Capital Asset Administration

Changes in capital assets for fiscal year 2015 were as follows:

	2015	2014	% change	\$ change
Capital assets not being depreciated	\$ 1,312,849	\$ 1,312,849	0.00%	\$ -
Capital asset being depreciated	2,060,882	2,060,882	0.00%	-
Less accumulated depreciation	<u>(1,035,592)</u>	<u>(974,804)</u>	6.24%	(60,788)
Total capital assets, net	<u>\$ 2,338,139</u>	<u>\$ 2,398,927</u>	-2.53%	(60,788)

At the end of fiscal year 2015, the District's investment in capital assets amounted to \$2,338,139 (net of accumulated depreciation). This investment in capital assets is primarily comprised of basic infrastructure assets and equipment. For more information regarding capital assets, please see Note 3 to the basic financial statements.

Long-term Liabilities Administration

Long-term liabilities for fiscal year 2015 were as follows:

	2015	2014	% change	\$ change
Note payable - Union Bank	\$ -	\$ 491,311	-100.00%	\$ (491,311)
Note payable - California Bank & Trust	476,810	-	100.00%	476,810
SBCERA loan	619,014	652,474	100.00%	(33,460)
Compensated absences	<u>30,733</u>	<u>24,015</u>	27.97%	6,718
Total capital assets, net	<u>\$ 1,126,557</u>	<u>\$ 1,167,800</u>	-3.53%	(41,243)

At the end of fiscal year 2015, the District had secured debt of \$476,810, of which \$465,595 is designated as long-term. Similarly, the District had \$30,733 in compensated absences, of which \$21,513 is designated as long-term. The District also entered into a loan agreement with the San Bernardino County Employees' Association to pay for the unfunded portion of the District's pension liability due to the District's termination from the plan. Of the SBCERA debt, \$585,554 is considered long-term. For additional information regarding long-term liabilities, please see Note 4 to the basic financial statements.

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net position or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at P.O. Box 8 – 26577 State Highway 18, Rimforest, CA 92378.

Rim of the World Recreation and Park District
Statement of Net Position
June 30, 2015

	Governmental Activities
ASSETS	
Cash	\$ 669,513
Accounts receivable, net	7,099
Intergovernmental receivables	29,587
Prepaid expenses	2,562
Capital assets not being depreciated	1,312,849
Capital assets being depreciated, net	<u>1,025,290</u>
Total assets	<u>3,046,900</u>
LIABILITIES	
Accounts payable	18,444
Accrued wages and benefits	24,419
Other current liabilities	63,433
Unearned revenue	12,666
Noncurrent liabilities:	
Due within one year	53,895
Due in more than one year	<u>1,072,662</u>
Total liabilities	<u>1,245,519</u>
NET POSITION	
Net investment in capital assets	1,861,329
Unrestricted (deficit)	<u>(59,948)</u>
Total net position	<u><u>\$ 1,801,381</u></u>

The accompanying notes are an integral part of these financial statements.

Rim of the World Recreation and Park District
Statement of Activities
For the year ended June 30, 2015

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Governmental Activities
Governmental activities:					
Administration	\$ 497,145	\$ 878,046	\$ -	\$ -	\$ 380,901
Recreation	285,593	128,444	5,018	-	(152,131)
Childcare	145,047	109,010	-	-	(36,037)
Interest expense	27,619	-	-	-	(27,619)
Total governmental activities	<u>\$ 955,404</u>	<u>\$ 1,115,500</u>	<u>\$ 5,018</u>	<u>\$ -</u>	<u>165,114</u>
General revenues:					
Investment earnings					935
Other					<u>3,378</u>
Total general revenues					<u>4,313</u>
Change in net position					169,427
Net position, beginning of year					<u>1,631,954</u>
Net position, end of year					<u>\$ 1,801,381</u>

The accompanying notes are an integral part of these financial statements.

Rim of the World Recreation and Park District
Balance Sheet
Governmental Fund
June 30, 2015

ASSETS

Cash	\$ 669,513
Accounts receivable, net	7,099
Intergovernmental receivables	29,587
Prepaid expenses	<u>2,562</u>
Total assets	<u><u>\$ 708,761</u></u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$ 18,444
Accrued wages and benefits	24,419
Unearned revenue	12,666
Other current liabilities	<u>63,433</u>

Total liabilities	<u>118,962</u>
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Fund balance:

Nonspendable:

Prepaid expenses	2,562
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Assigned:

Operating reserve	39,410
Capital replacement reserve	7,200
Capital acquisition reserve	24,000

Unassigned	<u>516,627</u>
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Total fund balance	<u>589,799</u>
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Total liabilities and fund balance	<u><u>\$ 708,761</u></u>
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The accompanying notes are an integral part of these financial statements.

Rim of the World Recreation and Park District
Reconciliation of the Balance Sheet of the Governmental Fund
to the Statement of Net Position
Governmental Fund
June 30, 2015

Fund balance of governmental fund	\$ 589,799
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	2,338,139
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds.

Note payable - California Bank & Trust	(476,810)
Loan payable - SBCERA	(619,014)
Compensated absences payable	<u>(30,733)</u>

Net position of governmental activities	<u>\$ 1,801,381</u>
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The accompanying notes are an integral part of these financial statements.

Rim of the World Recreation and Park District
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the year ended June 30, 2015

REVENUES

Special assessments, current and prior	\$ 784,182
Rents and concessions	93,864
Investment earnings	935
Charges for services:	
Recreation	128,444
Childcare	109,010
Contributions and donations	5,018
Other	3,378
	<hr/>
Total revenues	1,124,831

EXPENDITURES

Administration:	
Salaries and benefits	341,618
Services and supplies	141,594
Recreation:	
Salaries and benefits	31,572
Services and supplies	207,177
Childcare:	
Salaries and benefits	114,939
Services and supplies	23,527
Debt service:	
Principal	56,650
Interest	27,471
	<hr/>
Total expenditures	944,548

Excess of revenues over expenditures	180,283
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OTHER FINANCING SOURCES (USES)

Refunding of debt	(491,311)
Issuance of debt	500,000
	<hr/>
Total other financing sources (uses)	8,689

Net change in fund balance	188,972
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Fund balance, beginning of year	400,827
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Fund balance, end of year	<u>\$ 589,799</u>
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The accompanying notes are an integral part of these financial statements.

Rim of the World Recreation and Park District
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of the Governmental Fund to the
Statement of Activities
For the year ended June 30, 2015

Net change in fund balance - total governmental fund	\$	188,972
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense, or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Depreciation expense		(60,788)
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Issuance of debt provides current financial resources to governmental funds, while the repayment of principal consumes financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal payments		56,650
Payment of debt		491,311
Issuance of debt		(500,000)

Compensated absences expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Change in compensated absences		(6,718)
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Change in net position of governmental activities	\$	169,427
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The accompanying notes are an integral part of these financial statements.

**Rim of the World Recreation and Park District
Notes to the Basic Financial Statements
For the year ended June 30, 2015**

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Rim of the World Recreation and Park District (the District) conform to generally accepted accounting principles.

Organization

The District was established on December 5, 1985 by the issuance of the Certificate of Completion by the Local Agency Formation Commission (LAFCO). The District is governed by an elected Board of Directors, elected by District voters.

The District acquires and manages parks for public use, organizes and manages recreational activities, as well as assisting other groups and organizations with recreational endeavors. Childcare is also provided at various locations within the District to provide recreational activities for children as well as providing needed daytime child supervision for the individuals within the District.

The District's primary source of revenue comes from a \$22 per parcel special parcel tax for each non-exempt parcel (parcels located within Cedar Pines Park as well as government owned parcels are considered exempt) within the District boundaries. In addition, the District charges childcare fees, recreational fees for various programs as well as facilities use fees, including reimbursements for various costs such as ball field lighting. The District has no power to levy and collect taxes.

Basis of accounting and measurement focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide financial statements

Government-wide financial statements display information about the reporting government as a whole; except for any fiduciary activities (the District has no fiduciary activities). Those statements include separate columns for the governmental and business-type activities of the entity (including any blended component units), as well as its discretely presented component units. The District has no business-type activities or component units.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Rim of the World Recreation and Park District
Notes to the Basic Financial Statements
For the year ended June 30, 2015

Note 1: Summary of Significant Accounting Policies (continued)

Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds from debt issued are recorded as a liability in the government-wide financial statements, rather than as *other financing source*. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund financial statements

The underlying account system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the District's governmental fund are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Currently, the District has only one fund.

Governmental funds

In the fund financial statements, the governmental fund is presented using the *modified-accrual basis of accounting*. Revenues are recognized when they become *measurable* and *available*. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The District uses a sixty day availability period.

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental fund in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange transactions* are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

Rim of the World Recreation and Park District
Notes to the Basic Financial Statements
For the year ended June 30, 2015

Note 1: Summary of Significant Accounting Policies (continued)

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of debt issued are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Accounts receivable

Accounts receivable are reported at their estimated net realizable value. The allowance for doubtful accounts is estimated based on the District's historical losses and existing economic conditions. Because of the inherent uncertainty in estimating bad debts, it is reasonably possible that the estimates used to calculate the allowance will change in the near term. Currently, accounts receivable are reported in the financial statements as follows:

Accounts receivable	\$ 18,413
Allowance for uncollectible accounts	<u>(11,314)</u>
Net realizable value	<u><u>\$ 7,099</u></u>

Fund classifications

The following fund is presented as a major fund in the accompanying basic financial statements:

The *General Fund* is used to account for all activity not required to be accounted for in another fund.

**Rim of the World Recreation and Park District
Notes to the Basic Financial Statements
For the year ended June 30, 2015**

Note 1: Summary of Significant Accounting Policies (continued)

Fair value investments

GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the District reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Cash and investments

Cash and investments are reported in the accompanying balance sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment earnings* reported for that fiscal year. *Investment earnings* include interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Capital assets

Capital assets of \$5,000 or more are capitalized with a useful life of over one year. Capital assets are recorded at cost for asset purchases where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution.

The estimated useful lives of capital assets using the straight-line method of depreciation are as follows:

<u>Category</u>	<u>Useful life</u>
Buildings and improvements	10 – 50 years
Machinery and equipment	2 – 20 years

Compensated absences

Salaried full-time employees earn personal time off benefits, and can accumulate a balance from year to year. The amount payable in future years when used by the District's employees amounted to \$30,733 at June 30, 2015.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. Accordingly, actual results could differ from these estimates.

Property taxes/assessments

The County of San Bernardino (County) bills and collects property taxes/assessments on behalf of numerous special districts and incorporated cities, including the District. The District's collections of current year taxes/assessments are received through periodic apportionments from the County.

**Rim of the World Recreation and Park District
Notes to the Basic Financial Statements
For the year ended June 30, 2015**

Note 1: Summary of Significant Accounting Policies (continued)

The County's tax calendar is from July 1 to June 30. Property taxes/assessments attach a lien on the property on March 1. Taxes/assessments are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

Fund equity

The District reports its fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
- Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

The District Board (the highest level of authority), establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. The Board has not formally authorized any individual or body to assign fund balance, and therefore, all assignments of fund balance are authorized by the Board.

Deferred inflows and outflows

Deferred outflows of resources are transactions that result in the consumption of net assets in one period that are applicable to future periods and are not considered assets as described by the statement. Deferred outflows of resources are required to be presented separately after assets on the statement of net position.

Deferred inflows of resources are transactions that result in the acquisition of net assets in one period that are applicable to future periods and are not considered to be liabilities as described by the statement. Deferred inflows of resources are required to be presented separately after liabilities on the statement of net position.

The statement defines net position as the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

**Rim of the World Recreation and Park District
Notes to the Basic Financial Statements
For the year ended June 30, 2015**

Note 2: Cash and Investments

Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash	\$ 669,513
Total cash and investments	<u>\$ 669,513</u>

Cash and investments as of June 30, 2015 consist of the following:

Bank deposits	\$ 669,213
Petty cash and undeposited funds	<u>300</u>
Total cash and investments	<u>\$ 669,513</u>

Equity in the cash and investment pool of the County of San Bernardino

Cash and investments includes the cash balance of monies deposited with the County of San Bernardino Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2015. During the current year, the District removed all of its funds with the County pool and deposited them with California Bank & Trust.

Investments authorized by the California Government Code and the District's investment policy

The table below identifies the *investment types* that are authorized for the District by the California Government Code and the District's investment policy. The table also identifies certain provisions of the California Code (or the District's investment policy, if more restrictive) that address *interest rate risk* and *concentration of credit risk*. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Rim of the World Recreation and Park District
Notes to the Basic Financial Statements
For the year ended June 30, 2015

Note 2: Cash and Investments (continued)

Investment types authorized by investment policy	Maximum maturity*	Maximum percentage of portfolio*	Maximum investment in one issuer*
Bonds issued by the District	5 years	None	None
US Treasury bills, notes and bonds	5 years	None	None
Registered State warrants, notes or bonds	5 years	None	None
Local Agency debt	5 years	None	None
US Agency obligations	5 years	None	None
Bankers acceptances	180 days	40%	30%
Commercial paper	180 days	15%	10%
Negotiable certificates of deposit	5 years	30%	None
Repurchase agreements	1 year	None	None
Reverse repurchase agreements	92 days	20%	None
Corporate medium term notes	5 years	30%	None
Money market mutual funds	N/A	20%	10%
Collateralized bank deposits	5 years	None	None
Mortgage pass through securities	5 years	20%	None

* = Based on state law requirements or investment policy requirements, whichever is more restrictive.

Disclosure relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by diversifying its investment maturities evenly over time as necessary to provide the cash flow and liquidity needed for operations. At June 30, 2015, the District only held deposits with financial institutions.

Disclosures relating to interest rate risk, credit risk and custodial credit risk

At June 30, 2015, the District had aggregate deposits of \$699,513 with California Bank & Trust subject to FDIC insurance and collateralized by the bank.

**Rim of the World Recreation and Park District
Notes to the Basic Financial Statements
For the year ended June 30, 2015**

Note 2: Cash and Investments (continued)

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District holds no investments subject to credit risk.

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Concentration of credit risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of *total District investments* for the year ended June 30, 2015.

Rim of the World Recreation and Park District
Notes to the Basic Financial Statements
For the year ended June 30, 2015

Note 3: Capital Assets

Changes in capital assets for the fiscal year ended June 30, 2015, were as follows:

	Beginning balance	Additions	Deletions	Ending balance
<i>Governmental activities</i>				
Capital assets not being depreciated:				
Land	\$ 574,257	\$ -	\$ -	\$ 574,257
Improvements to land	738,592	-	-	738,592
Total capital assets not being depreciated	1,312,849	-	-	1,312,849
Capital assets being depreciated:				
Structures and improvements	1,845,883	-	-	1,845,883
Equipment	150,415	-	-	150,415
Depreciable improvements to land	64,584	-	-	64,584
Total capital assets being depreciated	2,060,882	-	-	2,060,882
Less accumulated depreciation	(974,804)	(60,788)	-	(1,035,592)
Total capital assets being depreciated, net	1,086,078	(60,788)	-	1,025,290
Total capital assets, net	<u>\$ 2,398,927</u>	<u>\$ (60,788)</u>	<u>\$ -</u>	<u>\$ 2,338,139</u>

Depreciation expense has been charged to the following functions as follows:

Administration	\$ 9,379
Recreation	46,409
Childcare	5,000
Total depreciation expense	<u>\$ 60,788</u>

Rim of the World Recreation and Park District
Notes to the Basic Financial Statements
For the year ended June 30, 2015

Note 4: Long-Term Liabilities

Changes in long-term debt for the fiscal year ended June 30, 2015, were as follows:

	Beginning balance	Additions	Deletions	Ending balance	Current portion
Note payable - Union Bank	\$ 491,311	\$ -	\$ (491,311)	\$ -	\$ -
Note payable - California Bank & Trust	-	500,000	(23,190)	476,810	11,215
SBCERA loan	652,474	-	(33,460)	619,014	33,460
Compensated absences	24,015	6,718	-	30,733	9,220
Total long-term liabilities	<u>\$ 1,167,800</u>	<u>\$ 506,718</u>	<u>\$ (547,961)</u>	<u>\$ 1,126,557</u>	<u>\$ 53,895</u>

Outstanding at
June 30, 2015

Note payable - Union Bank

In November 2005, the District refinanced its \$600,000 note payable, which was due on March 3, 2006, for \$606,000. The note requires monthly payments of \$4,037 based on a 25 year amortization schedule at an interest rate of 6.35%. See below.

\$ -

Note payable - California Bank & Trust

In July 2014, the District refinanced its \$606,000 note payable with Union Bank with a note payable from California Bank & Trust. The new note requires monthly payments of \$3,058 based on a 10 year amortization schedule at a variable interest rate based on the lender's LIBOR/Swap rate which as of the date of the note was 5.379%. At no time shall the rate be below 5.200%. At the end of the tenth year, a balloon payment of approximately \$378,347 is due and payable. Real property and improvements at 26577 State Highway 18, RimForest, CA are collateral for the note.

476,810

Loan payable - San Bernardino County Employees' Retirement Association

On December 2, 2013, the District elected to terminate its participation in the San Bernardino County Employees' Retirement Association (SBCERA). As a result, SBCERA calculated an unfunded termination liability as of May 31, 2013 which amounted to \$669,204. On January 27, 2014, the District entered into a loan agreement with SBCERA to pay off the unfunded balance. The agreement requires monthly payments of \$2,788 over a twenty year period, beginning January 2014. The loan does not carry an interest rate.

619,014

Total notes and loans payable

\$ 1,095,824

Rim of the World Recreation and Park District
Notes to the Basic Financial Statements
For the year ended June 30, 2015

Note 4: Long-Term Liabilities (continued)

The annual requirements to amortize the California Bank & Trust note payable outstanding as of June 30, 2015, including interest payments to maturity, are as follows:

Fiscal year ending June 30,	Principal	Interest
2016	\$ 11,215	\$ 25,479
2017	11,904	24,790
2018	12,561	24,134
2019	13,253	23,441
2020	13,921	22,773
2021-2024	413,956	82,765
Totals	<u>\$ 476,810</u>	<u>\$ 203,382</u>

The annual requirements to amortize the SBCERA loan payable outstanding as of June 30, 2015, including interest payments to maturity, are as follows:

Fiscal year ending June 30,	Principal	Interest
2016	\$ 33,460	\$ -
2017	33,460	-
2018	33,460	-
2019	33,460	-
2020	33,460	-
2021-2025	167,300	-
2026-2030	167,300	-
2031-2035	117,114	-
Totals	<u>\$ 619,014</u>	<u>\$ -</u>

Note 5: Employees' Retirement Plans

Currently, the District participates in the following retirement plans:

Accumulation Program for Part-time and Limited Service Employees (APPLE) – defined contribution

The District currently offers a defined contribution plan for employees classified as part-time, seasonal or temporary and who are not eligible to participate in the PERS 457 plan. The plan is administered by Keenan & Associates and MidAmerica Administrative Services. The District contributes 3.75% percent of the employee's compensation. In addition, each participant is required to contribute 3.75% of their salary. During the current fiscal year, the District contributed \$6,372 to the plan.

PERS 457 Plan – defined contribution

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Currently, the District contributes 10% of the employee salary. Pursuant to the IRC 457 subsection (g): all amounts of compensation deferred under the plan, all property, or rights are solely the property and rights of the employee and beneficiaries of the plan. Deferred compensation funds are not subject to claims of the District's general creditor; consequently the assets and related liabilities of the plan are not included within the District's financial statements. The District contributed \$22,549 to the plan in the current fiscal year.

Rim of the World Recreation and Park District
Notes to the Basic Financial Statements
For the year ended June 30, 2015

Note 6: Commitments and Contingencies

The District, from time to time, receives federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. District management believes such disallowances, if any, would not have a material effect on the District's financial position.

Note 7: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters for which the District carries commercial insurance.

Insurance pooling - The District participates in the California Association for Park and Recreation Indemnity (CAPRI) insurance program. CAPRI is a joint powers agency comprised of California special districts.

- *General liability (including public officials errors and omissions, auto and employment practices)* – Coverage with a \$1,000,000 limit per occurrence. CAPRI also purchases an excess policy with limits of \$25 million excess of \$1,000,000. There is a deductible for general liability claims of up to \$100,000 per occurrence, per member.
- *Crime* – Coverage with of \$1,000,000 per member district because of employee theft. For each covered claim, there is a deductible of \$1,000 per occurrence, per member.
- *All risk property loss* – Coverage with an annual aggregate limit of \$1,000,000,000, subject to a deductible up to \$25,000 per member. Earthquake coverage has an annual aggregate limit shared by all members of \$5,000,000 per occurrence and flood with an annual limit of \$10,000,000. The deductible for all loss or damage arising from the risks of earthquake is \$50,000 per occurrence or 5% of the value of the building, contents and/or structure damage, whichever is greater. The deductible for all loss or damage arising from the risk of flood is \$20,000.

Major loss risks are covered by umbrella policies, but several losses and multiple deductible losses to the group could result in additional assessments to the District. The pool has substantial reserves and has not requested additional assessments of members since the District began participation. Management considers the likelihood of such an assessment to be remote.

Workers compensation coverage is provided by the Special District Risk Management Authority (SDRMA). SDRMA is an intergovernmental risk sharing joint powers authority, created pursuant to California Government Code Sections 6500 et. seq. SDRMA provides statutory limits per occurrence for workers compensation and \$5,000,000 for employer's liability coverage with no member deductible.

There have been no significant reductions in insurance coverage from the prior year.

**Rim of the World Recreation and Park District
Notes to the Basic Financial Statements
For the year ended June 30, 2015**

Note 8: Rental Agreements

The District is currently the lessor of unused office space in its Rimforest office building and various cell phone tower sites. The anticipated future revenues for the various leases are as follows:

Fiscal year ending June 30,	Amount
2016	\$ 80,320
2017	81,978
2018	83,855
2019	85,752
2020	91,271
Total	<u>\$ 423,176</u>

The cell tower leases operate under five year renewable contracts. As of June 30, 2015, each lease has been renewed at least once. However, there is no guarantee the leases will be renewed in the future.

Required Supplementary Information

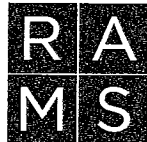
Required Supplementary Information
Rim of the World Recreation and Park District
Budgetary Comparison Schedule
General Fund
For the year ended June 30, 2015

	Budgeted amounts		Actual	Variance with
	Original	Final	amounts	final budget
REVENUES				
Special assessments, current and prior	\$ 760,000	\$ 760,000	\$ 784,182	\$ 24,182
Rents and concessions	88,164	88,164	93,864	5,700
Investment earnings	-	-	935	935
Charges for services:				
Recreation	155,600	155,600	128,444	(27,156)
Childcare	95,000	95,000	109,010	14,010
Contributions and donations	-	-	5,018	5,018
Other	-	-	3,378	3,378
Total revenues	1,098,764	1,098,764	1,124,831	26,067
EXPENDITURES				
Administration:				
Salaries and benefits	360,765	360,765	341,618	19,147
Services and supplies	229,393	229,393	141,594	87,799
Recreation:				
Salaries and benefits	33,342	33,342	31,572	1,770
Services and supplies	191,349	191,349	207,177	(15,828)
Child care:				
Salaries and benefits	121,381	121,381	114,939	6,442
Services and supplies	38,116	38,116	23,527	14,589
Debt service:				
Principal	55,154	55,154	56,650	(1,496)
Interest	26,746	26,746	27,471	(725)
Total expenditures	1,056,246	1,056,246	944,548	111,698
Excess of revenues over (under) expenditures	42,518	42,518	180,283	137,765
OTHER FINANCING SOURCES (USES)				
Refunding of debt	-	-	(491,311)	(491,311)
Issuance of debt	-	-	500,000	500,000
Total other financing sources (uses)	-	-	8,689	8,689
SPECIAL ITEM				
Withdrawal from retirement plan	-	-	-	-
Net change in fund balance	42,518	42,518	188,972	146,454
Fund balance, beginning of year	400,827	400,827	400,827	-
Fund balance, end of year	\$ 443,345	\$ 443,345	\$ 589,799	\$ 146,454

**Rim of the World Recreation and Park District
Notes to Required Supplementary Information
For the year ended June 30, 2015**

Note 1: Budgetary Control and Accounting

The District adopts an annual budget prepared on the modified accrual basis of accounting for its governmental fund types.



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Board of Directors
Rim of the World Recreation and Park District

PARTNERS

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Terry P. Shea, CPA
Kirk A. Franks, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

DIRECTORS

Bradferd A. Welebir, CPA, MBA

MANAGERS / STAFF

Jenny Liu, CPA, MST
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Yiann Fang, CPA
Nathan Statham, CPA, MBA
Brigitta Bartha, CPA
Gardenya Duran, CPA
Juan Romero, CPA
Ivan Gonzales, CPA, MSA
Brianna Pascoe, CPA

We have audited the financial statements of the governmental activities and each major fund of the Rim of the World Recreation and Park District (District) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 9, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the District's financial statements was:

Depreciation expense is the allocation of capital asset costs over the estimated useful life of a particular asset. The actual life of a single asset may vary significantly based on a variety of unknown factors, such as defects in quality of manufacturing or materials used in the asset. Assets may last longer or shorter than anticipated resulting in disproportionate allocation of expense to various accounting periods. We evaluated the useful lives of assets employed by the District to determine if the lives utilized appeared reasonable based on the asset classes in service.

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The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

STABILITY. ACCURACY. TRUST.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 20, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

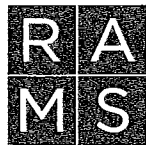
We applied certain limited procedures to Management's Discussion and Analysis and budgetary comparison schedules, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Rogers Anderson Maloney & Scott, LLP

San Bernardino, California
October 20, 2015



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Board of Directors
Rim of the World Recreation and Park District

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San Bernardino County

**INDEPENDENT ACCOUNTANT'S REPORT ON AGREED-UPON
PROCEDURES APPLIED TO APPROPRIATIONS LIMIT
WORKSHEETS**

PARTNERS
Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
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Ivan Gonzales, CPA, MSA
Brianna Pascoe, CPA

We have performed the procedures enumerated below to the accompanying Appropriations Limit worksheet of the Rim of the World Recreation and Park District (the District) for the year ended June 30, 2015. These procedures, which were agreed to by the District and the League of California Cities (as presented in the publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution*), were performed solely to assist the District in meeting the requirements of Section 1.5 of Article XIII-B of the California Constitution. The District's management is responsible for the Appropriations Limit worksheet. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed worksheets and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the Board of Directors. We also compared the population and inflation options included in the aforementioned documents to those that were selected by a recorded vote of the Board of Directors.

Finding: No exceptions were noted as a result of our procedures.

2. For the accompanying Appropriations Limit worksheet, we added last year's limit to total adjustments and agreed the resulting amount to this year's limit.

Finding: No exceptions were noted as a result of our procedures.

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3. We agreed the current year information presented in the accompanying Appropriations Limit worksheet to the other documents referenced in #1 above.

Finding: No exceptions were noted as a result of our procedures.

4. We agreed the prior year appropriations limit presented in the accompanying Appropriations Limit worksheet to the prior year appropriations limit adopted by the Board of Directors during the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by the League publication entitled *Article XIII-B of the California Constitution*.

This report is intended solely for the information and use of the Board of Directors and management of the Rim of the World Recreation and Park District and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Rogers Anderson Maloney & Scott, LLP

San Bernardino, California
October 20, 2015

**Rim of the World Recreation and Park District
APPROPRIATIONS LIMIT COMPUTATION
2014 – 2015**

<u>Actual calculation</u>		<u>2014-2015</u>
Per capita personal income change		-0.23%
Population change:		
County population growth		0.78%
CPI change converted to a ratio		0.9977
Population change converted to a ratio		1.0078
Calculation of growth factor		1.0055
2014-2014 limit	<u>\$ 2,556,354</u>	
2014-2015 limit		
(\$2,556,354 x 1.0055)	<u>\$ 2,570,414</u>	

**FY 2015-16 Mid-Year Report
with Spreadsheet**

Attachment 2

Rim of the World Recreation and Park District



Management's Discussion and Analysis For the 2015/2016 Mid-Year Review Ending December 31, 2015

Revenue Summary:

The District has budgeted \$1,092,825 of revenue for the 2015/16 fiscal year. The District has recognized \$630,074 through December 31, 2015, or 57.7% through midyear. This compares with a budget of 56.4% by midyear (based on expectation that heavier tax apportionment funds are received in the first half of the fiscal year's property tax revenue flow).

Expense Summary:

The District has budgeted \$1,052,119 in expense for the 2015/16 fiscal year. At the midyear point, \$597,678 has been spent, or 56.8% of the anticipated total. This compares with a budgeted percentage of 57.0% (based on anticipated expenditures of \$599,796 to date).

Revenue Detail:

Special Parcel Tax

Special Parcel Tax receipts are about 6.6% behind budget, or \$29,964. Roughly half of this shortfall is due to the quadrupling of County per-parcel administrative fees/taxes from \$.30 to \$1.20, or \$31,865 more for the 35,405 properties covered. The entire annual sum was deducted from the District's first tax-roll revenue check on November 13, essentially mandating an interest-free loan to the County from the District of that amount. The first-half amount has been recovered, the rest to be collected by the end of the fiscal year.

Childcare Income

Revenue for Childcare exceeded budget by 38.5%, or \$16,947. Direct operating expenses exceeded budget by only 7.5%, or \$338, and payroll was less than what was budgeted by \$5,035 (6.3%). Although this does not yet represent a break-even performance, the \$21,644 reduction in net loss is significant, indicative of higher patronage of the programs by the community and greater efficiency of service.

Rental Income

Rental Income exceeded budget by a little over a third (\$15,738), \$12,531 of which was for facility rentals. Contributing to this overage was soccer use of District ball fields (\$6,360, part of which was for field use in the previous fiscal year but missed in the billing then). Other heavier use was noted for Little League, football, and cheer. An additional \$3,166 was realized over budget for rental by these same groups for equipment (field lights).

Recreational Programs Income

The District saw some recovery in its Recreational Program Income, about 4.5%, or \$3,162, fed by commission programs (12.1%, or \$4,212), and the August run and bike tour events (29.6%, or \$3,850). Non-commission revenue fell short of budget by 22.3% (\$4,900), primarily in Youth and Adult Basketball.

Other Income

Only a nominal amount was budgeted in this category (\$180), but a one-time dividend check of \$2,170 was received for an insurance fund gain in FY01-02 from CAPRI (Cal. Assoc. for Park and Rec. Indemnity).

Grant Income

The District received an unbudgeted grant of \$6,770 from Greenfields Outdoor Fitness in December for park workout equipment to be installed at the Twin Peaks Rotary Centennial Park.

Expense Detail:

Compensation & Benefits

Payroll and benefit expenses totaled \$275,558, 2.7% below the projected six-month budget of \$283,112 (a variance of -\$7,554), largely due to less Childcare payroll expenses of \$5,035 (other individual departments were lower by less than \$1,000 each).

Equipment and Supplies

More conservative office supply ordering (-52.5%, or -\$2,622), lower janitorial supply outlays (-35.4%, or -\$796), and lack of any other miscellaneous expenses (-100%, or -\$1,200) accounted for the variance here of -54.7% (-\$4,618).

Auto Expense

Lack of any repairs enabled vehicle maintenance expenses to fall 86% below budget (-\$1,462); combined with fuel expense savings of 29.2% (\$1,226), this produced an expense shortfall of 45.6% (\$2,688).

Professional Services

Numerous line-item savings were realized under this grouping, but the biggest contributor was Legal Counsel (-56.9%, or -\$4,267). The overall savings from budget was 23.3%, or \$7,197.

Program Instructors

The lion's share of savings in this category came from the lack of any expenses in the "Other" line item, budgeted at \$2,496. Overall, costs were 11.3% below budget, or \$3,138.

Special Programs

Almost all expense in this line item (\$4,631 out of \$4,658) was for basketball uniforms, which were billed at higher than expected rates, causing an overall excess over budget of 46.5% (\$1,478).

Insurance

About two-thirds of the budget overage in insurance costs (all premiums) of \$2,318 (8.3%) was for workers compensation (\$1,553, or 8.0%), the remaining being liability and property (\$765, or 8.8%). Overages were all the result of premium increases that were unrelated to any claims, as there have been none.

Miscellaneous Expense

A total of \$50,000 was budgeted for the costs of holding an election to fill a vacant seat on the District's Board of Directors, all allocated in the first half of the fiscal year. However, since no candidates came forward to submit their names for the ballot, the County appointed a director to replace the one who had retired. This obviated the need for any funds to be spent on the election.

Rent/Lease of Equipment

Although rental of portable toilets was close to budget (\$140 under), the \$1,400 budgeted for other possible rentals (e.g., for a lift to repair ball field lights) was not needed, so there was zero expense in that category.

Facility Repairs & Maintenance

Of the \$80,783 overage (\$366.4%) in this line item \$73,846 was for repaving of the Running Springs Hootman Senior Center parking lot, a project anticipated in the FY15-16 budget via a transfer from the general Fund Balance to a designated reserve for this purpose (\$75,000), instead of a line item in the Income and Expense report. The reserve has now been transferred in full back to the general Fund Balance. Other overages (unbudgeted) include a \$15,865 deposit on outdoor park workout equipment related to the Greenfields Outdoor Fitness grant described above, \$4,400 for three ball field entrance signs, and \$1,992 for a lift gate for the Twin Peaks ball field sign. Partially offsetting these overages were the following significant line-item shortfalls: -\$6,383 (-96.7%) for landscaping that was not needed; -\$4,398 (-100%) for miscellaneous/other projects not needed; and -\$3,329 (-88.1%) for Childcare facility repairs not needed.

Utilities

Savings for utilities totaled \$5,966 (18.3% below budget), and the major contributor was water (\$4,880, or 22.6% below budget). State-mandated water use restrictions resulted in significantly reduced irrigation of District ball fields. Partially due to the termination of electrical service to a Crestline facility that the District no longer has, overall electricity expense was \$1,019 (13.0%) below budget.

Trash – SB County Waste Mgmt

Since no special waste hauling was needed for the first six months of the fiscal year, costs were \$1,548 (33.1%) below budget.

Overall Summary:

Rim of the World Recreation and Park District has maintained an overall revenue stream (outside of the Special Parcel Tax) that is far surpassing budget projections by \$43,913 (\$206,638 actual vs. \$162,725 budgeted). Meanwhile, expenses have been held 0.4% below budget (\$597,678 actual vs. \$599,796 budgeted). As a consequence, reserves have increased \$32,396, nearly double the projected \$16,329 for fiscal-year-to-date. The general Fund Balance of \$279,266, when combined with the General Operating Reserve of \$50,729, provides the District with non-designated funds and reserves of \$329,995, or 10.8% of total assets.

Other items:


Additional projects and small property acquisitions are being considered at both ends of the District – in Crestline to the west and in Green Valley Lake to the east. In addition, the District is continuing to partner with San Bernardino Associated Governments (SanBAG), the direct recipient of a \$284,250 Active Transportation Program grant (mountain-wide) on behalf of the District and that will be overseen by both agencies working in a joint capacity.

Rim of the World Recreation and Park District
Profit & Loss Budget vs. Actual
July through December 2015

	<u>Jul - Dec 15</u>	<u>Budget</u>	<u>\$ Over Budget</u>	<u>% of Budget</u>
Ordinary Income/Expense				
Income				
500-100 · Special Parcel Tax	423,436.36	453,400.00	-29,963.64	93.4%
500-200 · Childcare Income	60,947.05	44,000.00	16,947.05	138.5%
500-300 · Interest	113.28	120.00	-6.72	94.4%
500-400 · Rental Income	62,612.88	46,875.00	15,737.88	133.6%
500-500 · Recreation Programs Income	72,961.75	69,800.00	3,161.75	104.5%
500-600 · Other Income	2,170.00	180.00	1,990.00	1,205.6%
500-701 · Convenience/Other Fee Income	13.00	0.00	13.00	100.0%
500-710 · Grant Income	6,770.00	0.00	6,770.00	100.0%
500-900 · Donations	1,050.00	1,750.00	-700.00	60.0%
Total Income	<u>630,074.32</u>	<u>616,125.00</u>	<u>13,949.32</u>	<u>102.3%</u>
Gross Profit	630,074.32	616,125.00	13,949.32	102.3%
Expense				
600-100 · Compensation & Benefits	275,558.13	283,112.00	-7,553.87	97.3%
600-500 · Advertising	6,556.96	8,496.00	-1,939.04	77.2%
600-700 · Bank Charges	2,035.17	2,225.00	-189.83	91.5%
600-800 · Board Member Expense	0.00	150.00	-150.00	0.0%
600-900 · Communications	5,998.75	5,010.00	988.75	119.7%
700-300 · Equipment and Supplies	3,829.98	8,448.00	-4,618.02	45.3%
700-400 · Auto Expense	3,212.06	5,900.00	-2,687.94	54.4%
700-500 · Professional Services	23,693.42	30,890.00	-7,196.58	76.7%
700-600 · Program Instructors (1099)	24,576.48	27,714.00	-3,137.52	88.7%
700-620 · Special Programs	4,657.50	3,180.00	1,477.50	146.5%
700-630 · Special Event Programs	18,685.06	19,750.00	-1,064.94	94.6%
700-800 · License Fees	242.00	0.00	242.00	100.0%
700-900 · Insurance	30,392.65	28,075.00	2,317.65	108.3%
800-100 · Childcare Expense	4,833.34	4,495.00	338.34	107.5%
800-300 · Building Loan Pymt - DO	24,347.40	24,360.00	-12.60	99.9%
800-305 · Other Financing Source - Debt	0.00	0.00	0.00	0.0%
800-307 · Other Financing Use - Debt	0.00	0.00	0.00	0.0%
800-310 · SB CERA Retirement Association	16,730.10	16,740.00	-9.90	99.9%
800-400 · Meals & Entertainment	545.90	300.00	245.90	182.0%
800-450 · Staff Uniforms	0.00	0.00	0.00	0.0%
800-500 · Memberships	5,147.00	5,060.00	87.00	101.7%
800-600 · Mileage	1,259.78	750.00	509.78	168.0%
800-700 · Miscellaneous Expense	0.00	50,000.00	-50,000.00	0.0%
800-800 · Rent/Lease of Equipment	2,710.00	4,250.00	-1,540.00	63.8%
800-900 · Postage	238.57	510.00	-271.43	46.8%
900-200 · Facilities Rental Charge	4,200.00	4,200.00	0.00	100.0%
900-300 · Facility Repairs & Maintenance	102,829.09	22,046.00	80,783.09	466.4%
900-500 · Subscriptions	0.00	0.00	0.00	0.0%
900-600 · Training and Travel	1,930.11	2,980.00	-1,049.89	64.8%
900-700 · Utilities	26,578.63	32,545.00	-5,966.37	81.7%
900-725 · Trash - SB County Waste Mgmt	3,132.06	4,680.00	-1,547.94	66.9%
900-800 · Equipment Repairs & Maintenance	3,763.19	3,930.00	-166.81	95.8%
900-900 · Petty Cash - Over (Short)	-5.00	0.00	-5.00	100.0%
Total Expense	<u>597,678.33</u>	<u>599,796.00</u>	<u>-2,117.67</u>	<u>99.6%</u>
Net Ordinary Income	<u>32,395.99</u>	<u>16,329.00</u>	<u>16,066.99</u>	<u>198.4%</u>
Net Income	<u>32,395.99</u>	<u>16,329.00</u>	<u>16,066.99</u>	<u>198.4%</u>

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE : MARCH 8, 2016 
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
SAMUEL MARTINEZ, Assistant Executive Officer
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: AGENDA ITEM #8 – Update on Status of LAFCO 3157A – Service Review for Open Space and Habitat Conservation within the Valley Region and Request for Continuance to September 21, 2016 Hearing

RECOMMENDATION:

Staff recommends that the Commission:

1. Modify LAFCO 3157A, service review for Open Space and Habitat Conservation, to encompass the entire San Bernardino County;
2. Defer consideration of LAFCO 3157A, as modified, until after completion of Phase 2 of the Countywide Habitat Preservation/Conservation Framework Study;
3. Direct staff to evaluate a sphere of influence reduction to a zero sphere for County Service Area 120 if the conditions outlined in Resolution No. 3095 still have not been met by the time the Commission considers LAFCO 3157A; and,
4. Note receipt of the Status Report and file.

BACKGROUND:

In September 2014, the Commission deferred consideration of LAFCO 3157A, the service review for Open Space and Habitat Conservation Services for the Valley Region, until completion of the Countywide Habitat Preservation/Conservation Framework Study (Framework Study), which is the first of many steps towards a more comprehensive approach to habitat conservation for San Bernardino County. The

Framework Study is a product of the Countywide Vision Environment Element Group, in coordination with the San Bernardino Associated Governments (SANBAG), which is composed of stakeholders representing environmental groups, the building industry, state resource agencies, special districts, and other local and regional governments, including LAFCO. LAFCO staff collaborated extensively with SANBAG and its consultant on Phase 1 of the Framework Study by providing data that was already collected through the initial process of LAFCO's service review on open space and habitat conservation.

Phase 1 of the Framework Study was completed in February 2015. Included as Attachment #1 to this report is Section 7 of the Framework Study that outlines the "next steps" to be taken towards developing a Countywide conservation plan.

Since next steps, which is Phase 2 of the Framework Study, is evaluating habitat preservation/conservation for the entire San Bernardino County, staff is recommending that the Commission's service review for open space and habitat conservation be modified from solely the service review for the Valley Region to now encompass the entire County.

Recommendation:

Modify LAFCO 3157A, service review for Open Space and Habitat Conservation, to encompass the entire San Bernardino County.

The priority next steps for Phase 2, as defined by the Countywide Vision Environment Element Group, includes developing an inventory and habitat tracking system, conducting a more detailed conservation "gap analysis" and developing a reserve design. The Request for Proposal that was sent out for Phase 2 just recently concluded and SANBAG, as the project manager, anticipates that a consultant for Phase 2 will soon be selected. Included as Attachment #2 to this report is the Scope of Work that outlines the timeline and the tasks needed to complete Phase 2.

As identified in the Scope of Work, Phase 2 is anticipated to be completed in 12 to 18 months. Since much of information that is being generated for Phase 2 is what LAFCO staff will also be using for its data analysis, it would be beneficial for LAFCO to await the completion of Phase 2 in order not to duplicate the efforts that the Countywide Vision Environment Element Group and SANBAG are working on.

Recommendation:

Defer consideration of LAFCO 3157A, as modified, until after completion of Phase 2 of the Countywide Habitat Preservation/Conservation Framework Study.

County Service Area 120

Also in September 2014, the Commission approved LAFCO 3157, the sphere of influence establishment for County Service Area (CSA) 120 followed by the Commission's adoption of Resolution No. 3190 for LAFCO 3157. Resolution No. 3190 included conditions imposed on CSA 120's sphere of influence establishment, which are outlined below:

1. Within six months of the approval of the sphere of influence establishment, CSA 120 shall have completed the due diligence process with the California Department of Fish and Wildlife to be declared an available recipient of mitigation properties in the future. Failure to do so will require a further analysis of the sphere of influence assignment;
2. Within six months of the approval of the sphere of influence establishment for CSA 120, management of the County Special Districts Department shall develop a mechanism to provide for the maintenance and operation of the improvements constructed through the 2008-09 State Park grant without use of the endowment funds established for mitigation purposes only;
3. Within six months of the approval of the sphere establishment, CSA 120 shall have completed all reporting required by State law for the management of mitigation properties; and,
4. Within six months of the approval of the sphere of influence establishment, CSA 120 will have developed funding plans to restore endowment balances for those mitigation properties where mitigation work has not been performed but interest earnings used.

As of the date of this report, no documentation has been provided regarding the satisfaction of these conditions.

On January 21, 2016, CSA 120's Advisory Board recommended that its staff move forward with submitting the necessary documents to process its Due Diligence with the California Department of Fish and Wildlife – a process that should have started even before the conditions for CSA 120's sphere of influence establishment were imposed since the district will not be authorized to hold and manage additional mitigation lands in the future. Since it is the recommendation that the Commission defer its consideration of the service review for open space and habitat conservation for San Bernardino County until after Phase 2 is completed (anticipated to be 12-18 months from now), LAFCO staff is recommending that the Commission consider designating a zero sphere of influence for CSA 120 if it still has not fulfilled all of the conditions that were imposed on its sphere establishment by that time, noting that an additional 18 months should be

more than enough time to complete all the conditions related to CSA 120's sphere establishment as outlined in Resolution No 3190 approved almost two years ago.

Recommendation:

Direct staff to evaluate a sphere of influence reduction to a zero sphere for County Service Area 120 if the conditions outlined in Resolution No. 3095 still have not been met by the time the Commission considers LAFCO 3157A.

Designation of a zero sphere of influence would signal the Commission's position that the CSA 120 should no longer be considered to provide this service and that others within the area, to be defined in the study, should consider assumption of these services.

KRM/sm

Attachments:

1. Section 7 of the Framework Study – Next Steps
2. Phase 2 Scope of Works

Section 7 of the Framework Study - Next Steps

Attachment 1

San Bernardino Associated Governments

Countywide Habitat Preservation/Conservation Framework Development

7 NEXT STEPS

To develop a countywide conservation plan as outlined in this conservation framework study , there needs to be a collaboration amongst the stakeholders and a willingness of all parties to seek the most benefit for those involved. The vision of the conservation framework is embodied in Principle 1, which is to provide certainty to the development and conservation processes in the county. The intent would be to approach habitat preservation/conservation in a more comprehensive manner such that the environment benefits from more cohesive, functional habitats that will protect species, while providing economic development benefits through greater clarity and speed in the development process. This is consistent with the lead paragraph in the Environment Element of the Countywide Vision, which states, in part:

“We shall strive to intelligently manage our resources for habitat preservation, recreation opportunities, resource extraction, alternative energy, future growth, water quality, and air quality all within a regulatory framework that does not impede the creation of a sustainable economy.”

The intent of this section is to provide a pathway of the next steps that need to be taken, based on what has been completed to date by the efforts outlined in this report. This effort has not been exhaustive, nor was it intended to be; rather it is the first of multiple steps needed to implement a conservation plan for the county.

The following includes a discussion of the next steps and commitments necessary to continue the momentum proceeding to the next level or phases of a more comprehensive, countywide conservation strategy. A discussion of the next steps on a countywide and subarea level is provided where applicable. The entity responsible, the proposed implementation schedule, personnel, and financial resources needed for each of the next steps are also identified, where applicable.

Primary Priorities: Timeframe: 6 months

1. Identify an Interim Lead for Conservation Planning.

Moving forward from a framework study to a comprehensive planning phase, one entity should be identified to keep the initiative moving and be accountable for achieving progress. As stated in Principle 4, a “champion” or Lead for conservation planning in the county should be established. Since this next step is the first of many, and the course of action and players may change once more information is compiled, the Lead that is identified initially may not be the same Lead throughout the whole process. For this reason, an Interim Lead should be chosen until a long-term Lead entity is identified.

San Bernardino Associated Governments

Countywide Habitat Preservation/Conservation Framework Development

The process for choosing an Interim Lead could be undertaken by a small committee of individuals that can provide the collaboration and leadership needed to sustain the momentum for this conservation framework. Potential Interim Leads could be the Local Agency Formation Commission (LAFCO), County of San Bernardino, or SANBAG. LAFCO and SANBAG could be potential interim leaders for conservation planning efforts, given their innate role as the representative for all the local jurisdictions in the county. The County of San Bernardino could also be the Interim Lead since they oversee the Countywide Vision program.

The Interim Lead could employ individuals with conservation planning backgrounds to facilitate the management of the conservation planning efforts on behalf of the local jurisdictions. The Interim Lead should have good working relationships with the regulatory agencies, and be able to facilitate and foster those relationships which would be important in developing the conservation plan.

The Interim Lead should work with a consortium (or steering committee) of jurisdictions and entities that would focus on conservation planning in the county. The consortium could include representatives of jurisdictions from each region and entities already involved in either land acquisition and/or management in the county such as Inland Empire Resource Conservation District (IERCD), Riverside Land Conservancy (RLC), Center for Natural Lands Management (CNLM), and County Special Districts. Because the Valley Region has the most focus for development, representatives from multiple cities for this region should be involved. Coordination with landowners should be encouraged. Other considerations could include personnel from other Habitat Conservation Plans, such as San Bernardino Valley Water Conservation District and/or San Bernardino Valley Municipal Water District, inclusion of a qualified biologist, and personnel knowledgeable in GIS.

2. *Create an Inventory and Tracking System.*

The Interim Lead entity, or a designee (e.g., management agency, academic institution), would create an inventory of conservation lands in the county and establish a system for long-term tracking of new conservation acquisitions. The Interim Lead entity or designee managing the inventory and tracking system will be trusted with maintaining data quality and accuracy, and appropriate confidentiality. The inventory presented as part of this report (Section 2) would serve as a starting point, and obtaining missing data identified in Section 3 should be a priority. A digital format inventory integrated with GIS should be required, as this is easily shared with other entities. The tracking and inventory system should be established in an acceptable, uniform format for ease of use by multiple jurisdictions and integration into a single tracking system. Once the inventory of

San Bernardino Associated Governments

Countywide Habitat Preservation/Conservation Framework Development

previous, existing conservation ownership is complete, a long-term tracking/collection system needs to be established to document new conservation lands set asides and/or acquisitions that occur through the development process as a result of hillside ordinance compliance, or land set asides required by the local jurisdiction, or from the regulatory permitting process for waters (i.e., 1600 Permits, 404 permits). The inventory and tracking system should include and distinguish among lands legally committed to conservation through signed and executed easements or other similar agreements as well as proposed conservation lands not yet legally transferred into conservation. Tracking existing and new conservation efforts is imperative to developing and maintaining a cohesive conservation plan. The tracking system could be linked to the development entitlement process so that all applicants are required to report their digital footprint of conservation and the permitting local agency could provide an annual report of their conservation efforts to the Interim Lead/Lead entity. The reporting requirements could also apply to the consortium of participants (mentioned above) responsible for management of conservation lands. Demonstrating the ability to track and manage connected conservation lands would provide the regulatory agencies with assurances that conservation lands function as intended for mitigation for impacts and may result in more streamlined processing for projects.

3. *Identify Funding Sources.*

As stated in Principle 3, multiple funding sources should be sought, and in the spirit of collaboration, there should be multiple entities working on seeking out funding sources. A priority for next steps should be to identify qualified personnel to pursue and prepare grant funding opportunities needed to continue the conservation study. Grant funding sources may be from federal/state government agencies, non-profits and may include an emphasis on habitats, wildlife movement, and wildlife protection measures. In addition, long-term funding will be needed to acquire and/or manage land. Other potential long-term funding sources may be provided through; open space ordinance fees; tipping fees, private sources, and/or non-profit organizations. A single entity should function as the clearinghouse for funding efforts. Budgeting efforts should also consider allocating funds to support regulatory staff to work exclusively on conservation planning in the County.

4. *Conduct a Conservation Gap Analysis and Develop a Reserve Design.*

Based on the information presented in Section 3, Data Gaps, as well as what is outlined in Principles 3, 7, 9, 11, 12, and 13, a detailed analysis of focal species occurrences and known conservation lands should be initiated. An important step in conservation planning is to conduct a gap analysis, the results of which help develop the biological goals and objectives of a conservation plan. A gap analysis relies on GIS analysis of spatial data (i.e., biological

San Bernardino Associated Governments

Countywide Habitat Preservation/Conservation Framework Development

data, land ownership, land uses, and designated management status) to assess the distribution of biological resources (e.g., natural communities, species distributions, known occurrence data) relative to the distribution of protected lands (areas protected and managed to maintain biological resource value) to identify any “gaps” in protection (e.g., biological resources that are on private lands and not well protected). A gap analysis is used to identify gaps in representation, ecological processes or functions, and management of existing protected areas. The identification of gaps helps to focus the attention of the conservation strategy on areas most at risk or that would most benefit from conservation actions (e.g., acquisition, restoration, management, monitoring).

The Vacant Land Survey conducted by the County should be incorporated into the conservation gap analysis to understand what areas are viewed to be generally available for development and what areas could be considered for conservation. The conservation lands inventory and tracking system (discussed above) will also be important for providing the location, ownership, and management regime data that informs the GIS spatial analyses.

A gap analysis is integral to developing the Reserve Design because it provides an understanding of land ownership encumbrances and identifies the wildlife and habitat linkages or connections that can be made with existing conservation areas that would be most beneficial for focal species conservation. Reserve Design is a process which identifies lands needing protection to sustain natural resources while considering ecological, social, and political factors. Reserves are areas set aside to protect natural values such as biodiversity, ecosystem functions, or to offset adverse effects from use or development. The two main objectives of reserves are to achieve species, habitat, and function representativeness and persistence. To meet these basic objectives, a reserve design must consider not only location but size, connectivity, replication, and alignment of boundaries. The Reserve Design will need to incorporate current and future conditions, within reasonable and practical limitations, including climate and urbanization changes to be successful long-term. Datasets used in Reserve Design analyses should be reviewed for quality and accuracy. Areas considered for inclusion into the Reserve Design should be verified through surveys or assessments by a qualified biologist(s) to ensure that the area provides suitable, quality habitat for focal or other target species. Identify Focal Species for Conservation Planning.

As outlined in Section 4, and consistent with Principle 13, more detailed biological analyses are needed for species that would most likely require mitigation in association with regulatory permitting. To understand where focal species locations overlap with development concerns, biological analyses should focus on incorporating complete datasets of species occurrences to support species habitat modeling. This task would be

San Bernardino Associated Governments

Countywide Habitat Preservation/Conservation Framework Development

integral to the Gap Analysis and Reserve Design process which identifies important areas for long-term protection and management for focal species. The practicality of “species relocation” should also be considered in cases when abundant and suitable species habitat exists nearby. Forcing habitat connectivity where and when the existing built environment would make for unsafe interactions between humans and some protected (predator) species should be avoided.

Secondary Priorities: Timeframe: 6 to 24 months

5. Create Detailed Conservation Strategies by Conservation Subarea

As presented in Principle 7, conservation planning should be divided into practical subareas. As outlined in Section 5, refinement of the subarea approach should occur to determine which jurisdictions are interested or better suited to be included into specific sub-regions.

Given that the land in the Desert Region is primarily government-owned, coordination with the federal land owners in these areas is the best alternative for conducting conservation planning whereby local jurisdictions may link their open space and/or conservation lands with large areas of government-owned properties. Additionally, if the Desert Renewable Energy Conservation Plan (DRECP) is finalized and approved, local jurisdictions within the DRECP boundaries should confer to decide if the conservation framework identified in the DRECP could benefit their conservation objectives. One potential for the Desert Region would be to have a County led effort with participation from the local jurisdictions which incorporates the conceptual reserve presented in the DRECP into the jurisdiction General Plans. General Plan Policies or overlays can be created that address conservation needs in areas identified in the Gap Analysis, focusing on the areas that lack protection. Aligning local General Plans with the DRECP will allow those jurisdictions to tier off of the DRECP for species permitting. While General Plans provide a potential avenue for obtaining conservation and open space areas, these policies do not include a mechanism to guarantee long-term protection in perpetuity.

The Mountain Region is also predominantly federally owned and managed, therefore connecting jurisdictional open space and conservation lands with public ownership lands through land acquisition or easement procurement should be considered. This is a similar approach recommended for the Desert Region which tiers off of existing protected federal and/or state lands to create a connected system of open space and/or protected lands.

For the Valley Region, several different strategies could be employed. Since the Valley Region consists of 15 different local jurisdictions, each with their own land use authorities, focus should be given to land use patterns for each jurisdiction and potential undeveloped lands that could be conserved should be analyzed. For instance, some

San Bernardino Associated Governments

Countywide Habitat Preservation/Conservation Framework Development

jurisdictions in the West Valley area (i.e., Chino, Ontario, Montclair) have few decisions remaining to be made regarding open space that could support listed species (i.e., decisions on open space that would require ESA permitting). Also, these jurisdictions would not have lands that would pose viable biological links to other open space areas. However, other Cities such as Rancho Cucamonga, Fontana, San Bernardino and Rialto still have decisions that will need to be made regarding open space areas. An option for these jurisdictions may be to combine land use planning efforts (with or without the County) to establish a sub-regional comprehensive Reserve Design.

Initially, the focus should be on identifying the areas and linkages that could constitute a cohesive, functional conservation strategy. How best to implement that strategy, and with what specific tools, is a separate but equally important issue (discussed below). It will be important in moving forward not to confuse the end with the means to that end.

One alternative to the more traditional route of completing a Habitat Conservation Plan or a programmatic U.S. Fish and Wildlife Service (USFWS) Section 7 permit, would be to prepare an “alternative conservation plan”. This “alternative plan” approach would utilize the inventory and tracking system, along with the reserve design mentioned above, to provide a plan for which areas of known species occupation or suitable habitat is avoided and conserved through the development process and other means. This “alternative plan” could be implemented voluntarily at a General Plan level. The jurisdictions would need to evaluate the results of the Vacant Land Survey completed by the County, as well as understand the focal species for which regulatory permitting would most likely be required. The jurisdictions’ General Plans could be modified, or the County’s upcoming Countywide Plan could identify the mechanism for which each of these jurisdictions could transfer density credits or bonuses either within a jurisdiction or between jurisdictions to compensate for the “lost” development potential that would become open space/conservation. The Interim Lead/Lead would be responsible for tracking and coordinating these land use efforts to establish the comprehensive reserve design through the alternative plan. The alternative plan would ideally result in no “take” of listed or sensitive species. If “take” permitting is needed, the alternative plan would provide a comprehensive conservation approach to use for species or habitat mitigation. This could be combined with a Waters mitigation plan or County’s programmatic permitting efforts. This alternative plan would provide a more flexible and smaller-scale approach than a traditional HCP, with “front loaded” analysis efforts. Therefore, the alternative plan would speed the development process and also give the conservation community a clear idea, combined with accurate tracking and reporting, of where the conservation will occur. This would be combined with effective management methods, as explained in the next section. The alternative plan approach does not include issuance of a permit by the regulatory Agencies therefore, development of a mechanism (e.g.,

San Bernardino Associated Governments

Countywide Habitat Preservation/Conservation Framework Development

Memorandum of Understanding) to provide long-term assurances of Agency acceptance and protection from future changes is needed.

6. *Identify Management Methods.*

Consistent with Principles 14 and 15, management mechanisms for existing and future conservation lands would need to be established by the Interim Lead/Lead. Direct employment of qualified personnel, including qualified biologists, and/or contracting with entities such as IERCD, RLC or CNLM who are qualified and experienced in land management should be a priority. Though the areas to be managed must first be identified before this step could be executed, efforts should be made early to seek out potential entity(ies) that would be able and willing to manage the conservation lands. To ensure that long-term management is sustainable, the Interim Lead/Lead should work with the entity(ies) to identify the costs needed for management and conduct the appropriate analysis (e.g., Property Analysis Record [PAR] analysis) and documentation to substantiate the management funding requirements. It would be in the best interest (i.e., more logistically feasible), and generally looked upon favorably by the Wildlife Agencies, to have one management entity involved, at least for each regional Subarea.

Tertiary Priority: Timeframe: 18 to 36 months

7. *Develop Implementation Strategy.*

Based on the results of the above steps, an implementation strategy should then be developed. The various outcomes could include options outlined in Principle 9 such as: development of habitat conservation plans, mitigation banks, and conservation easements managed by one entity, programmatic Section 7 permits, in lieu fee programs, General Plan policy implementation, and alternative plans (as discussed above in No. 6).

An integral part of any future implementation strategy should be early and ongoing communication with the regulatory agencies about conservation plans. One best practice in the development process to facilitate streamlined regulatory permitting requirements would be to initiate “pre-application” meetings with the regulatory agencies (Army Corps of Engineers, Regional Water Quality Control Board, California Department of Fish and Wildlife, and USFWS). Including these entities in the development process early to discuss mitigation requirements will ultimately provide increased certainty to the development community, and provide a clear path for mitigation requirements which will help move development forward. The Interim Lead/Lead could be the conduit for these “pre-application” meetings, or they may be set up by sub-regions. Incorporating pre-application meetings into the General Plans and land use planning for development is also a way to create comprehensive and cohesive conservation.

Phase 2 Scope of Works

Attachment 2

ATTACHMENT A SCOPE OF WORK

PHASE TWO OF THE SAN BERNARDINO COUNTYWIDE HABITAT PRESERVATION/CONSERVATION FRAMEWORK: TRACKING SYSTEM, GAP ANALYSIS, AND RESERVE DESIGN

Scope of Work (For Review and Discussion Only)

SUMMARY OF PROJECT

Conservation planning in the county traditionally has taken place on a more isolated, project-by-project basis, without a comprehensive view of habitat preservation opportunities and priorities countywide. The Framework Study was initiated to provide a comprehensive blueprint for countywide habitat conservation. The work under the first phase of the Framework Study was released as a guidance document outlining the conservation issues and concerns, existing conservation, conservation opportunities, and data gaps associated with current approaches to habitat conservation. The Conservation Framework also identified an achievable set of conservation principles and next steps within a suite of possible comprehensive, long term conservation approaches. The Next Steps section of the Framework Study phase one document included a list of approaches based on priorities and timeframes. Development of the inventory and tracking system, conservation gap analysis, and reserve design were identified by the EEG as the top priorities for next steps. These next steps are critical for establishing implementable comprehensive countywide conservation strategies. Phase two does not require participation by any individual jurisdiction or agency, but broad participation will be encouraged so that the county can move forward to achieve environmental objectives in a business-friendly manner that results in benefits across the board.

STUDY OBJECTIVES

The objectives of this project are to:

1. Create an inventory and tracking system for existing conservation lands and for lands that are newly conserved through acquisition, easements, local General Plans, and other management practices. The tracking system in San Bernardino County will consider inventory and tracking processes established in other parts of the SCAG region, enabling more consistent inventories and analysis at a regional level. San Bernardino County may be considered as a type of pilot study for how to bring data from these systems together.
2. Conduct a conservation gap analysis based on focal species occurrences and known conservation lands.
3. Based on the gap analysis, develop an initial reserve design or alternative designs that

identify focus areas needing protection to sustain natural resources while considering ecological, social, economic, and political factors. The goals are to develop greater clarity and speed in the land development process and greater certainty in the preservation/conservation of important habitat.

4. Based on study findings and input from the Environment Element Group and other stakeholders, and on direction from the SANBAG Board of Directors and County Board of Supervisors, identify a set of next steps in the development of a more comprehensive approach to habitat preservation/conservation in San Bernardino County.
5. Work with the stakeholder group established for the Environment Element of the Vision to move the countywide habitat preservation/conservation framework forward in a way that benefits both the environment and the economy. 1. Seek relevant information for the study from the stakeholder group; 2. Report summary of findings to the group; 3. Seek feedback and refinements from the group on the final draft reports.

It is anticipated that this study will be completed in 12 months from Notice to Proceed. However, the timeframe will be governed by input from the stakeholders and the analysis of data supporting the eventual recommendations for next steps.

STUDY TASKS

Work tasks to be performed as part of the study include:

1. Project management
2. Create a systematic inventory and update process for existing conservation lands, easements, and maintenance commitments and establish a system for long-term tracking of new conservation acquisitions, easements, and maintenance commitments
3. Conduct conservation gap analysis on focal species occurrences and known conservation lands and easements
4. Develop a conceptual reserve design that identifies potential focus areas needing protection to sustain natural resources while considering ecological, social, economic, and political factors
5. In collaboration with clients, define phase three next steps and commitments necessary to further implement the principles identified in the framework study
6. Document all results of the analysis and comments from stakeholders

Each task is described in more detail below.

1. Project management

- **Project Kick-off Meeting:** SANBAG, County of San Bernardino, SCAG, and the consultant will hold a kick-off meeting to discuss project scope, schedule, outreach, and expected project outcomes. Milestones and potential meeting schedules for interaction with the Environment Element group will be discussed. A meeting summary confirming project goals, objectives, data collection needs, and stakeholder outreach approaches will be developed and documented.
- **Staff Coordination:** Monthly face-to-face project team meetings with consultants to ensure good communication on upcoming tasks and to ensure that the project

remains on time and within budget. It is anticipated that meetings of the Environment Element Group will be held up to five times throughout the project process. The Environment Element Group will serve as the main reviewing stakeholder group for the project, but presentations at SANBAG's Planning and Development Technical Forum (PDTF, consisting of jurisdiction planning directors) and/or SANBAG Board or Committee meetings will be requested as the need arises. (Maximum 4 for PDTF and 2 for SANBAG Board or policy committees)

- The Open Space Conservation Working Group at SCAG is a gathering of stakeholders for the development of the Open Space Conservation Planning component of the Regional Transportation Plan (RTP)/Sustainable Communities Strategy (SCS). Presentations at SCAG's Working Groups and/or Committee meetings will be requested as the need arises from SCAG. (Maximum 2)
- Invoicing and project reporting: The consultant may bill SANBAG monthly for project expenses incurred. A brief progress report shall be provided together with each invoice.

2. Create a systematic inventory and update process for existing conservation lands and establish a system for long-term tracking of new conservation acquisitions

As identified in the Next Steps from the framework study, this effort will be required to create an inventory of conservation lands in the county and establish a system for long-term tracking of new conservation acquisitions. Known conservation easements and maintenance commitments will also need to be identified. SANBAG, the County, and consultant will need to work together to maintain data quality, accuracy, and appropriate confidentiality involved in data collection for the tracking system. The inventory presented as part of the framework study would serve as a starting point, and the consultant will be obtaining the preliminary missing data identified in Section 3 of the framework study as soon as the review of the current data is complete.

The consultant shall create a structured inventory and tracking system through the following:

- Documentation of conservation databases and tracking systems that may be in use in San Bernardino County, at SCAG, and in other counties in the SCAG region and at the US Fish and Wildlife Service (USFWS) and California Department of Fish and Wildlife (CDFW). This project should build upon systems that have been or are being developed in the region and seek to maximize the consistency of data elements and formats at the regional level. This will include outreach early in the project to the counties of Imperial, Orange, Los Angeles, Riverside, and Ventura. No data collection will occur in these other counties, but the tracking system for San Bernardino County should be designed in a way that will enable SCAG to collect regionally consistent data that will be useful for development of the 2020 Regional Transportation Plan/Sustainable Communities Strategy.
- Examination of mapping and auxiliary information available from the phase one framework study (Appendix 2B and 2C). The Consultant will also review and include any other data sources not included in the framework study that will be useful to the

development of the tracking system, including sources from SCAG, County of San Bernardino, Local Agency Formation Commissions (LAFCO), cities in San Bernardino County, state/federal resource agencies, and regional conservation planning efforts such as the Desert Renewable Energy Conservation Plan (DRECP).

- Based on the above input, prepare a technical memorandum recommending a structure for a conservation tracking system in San Bernardino County that will also be usable at the regional level. This will include listings and definitions of variables, GIS/software platform options and associated formats. As discussed above, the preference will be to build on a system or systems already in place, also keeping in mind simplicity of adding new data over time.
- Following approval of the structure by SANBAG, in consultation with the County and SCAG, incorporate data from the framework study and other sources identified above in building of the tracking system. This will establish the baseline inventory from the framework study and other sources, creating an existing conservation ownership and management database.
- Define a long-term Countywide conservation tracking/data collection process that tracks information on new conservation land set asides and/or acquisitions that occur through the development process. These could be from a wide range of local jurisdiction actions such as infrastructure project mitigation, hillside ordinance compliance, land set asides required in development agreements, or regulatory permitting process for waters (i.e., 1600 Permits, 404 permits). The intent is to link the tracking system with the development entitlement process of San Bernardino County's jurisdictions so that the digital footprint of conservation for each development project will be added at the appropriate point. The system should eventually enable SANBAG, County, and SCAG to develop an annual report of conservation efforts.
- The inventory and tracking system should include and distinguish among lands legally committed to conservation through EIR mitigation measures, executed development agreements, easements, or other similar agreements. The tracking system should be able to compare committed lands to potential conservation areas identified in local General Plans and Specific Plans.
- Develop tracking and reporting instructions that apply to the consortium of participants responsible for management of conservation lands. The tracking and inventory system should provide the ability to comprehensively track and manage connected conservation lands for the regulatory agencies.
- The tracking and inventory system should be in a digital format integrated with GIS. The tracking and inventory system should be established in a uniform format for ease of use, with access by multiple jurisdictions.
- The consultant will be responsible for presenting the tracking and inventory system to the Environment Element stakeholder group and to the SANBAG Planning and Development Technical Forum. Comments from these stakeholders will be used to fine-tune the tracking system and associated process.

Deliverables:

- Review report of the existing conservation data and inventory
- Technical memorandum recommending a structure for the conservation tracking system

- GIS based inventory system of existing conservation data
 - Tracking system documentation and user manual
 - Baseline inventory and existing conservation ownership and management database
- 3. Conduct conservation gap analysis on focal species occurrences and known conservation lands**

Based on the information presented in Section 3 of the Framework Study section (Data Gaps), a detailed analysis of focal species occurrences and known conservation lands should be initiated. The gap analysis is an important step in conservation planning, the results of which help develop the biological goals and objectives of a conceptual Reserve Design. The gap analysis will rely on GIS analysis of spatial data (i.e., biological data, land ownership, land uses, and designated management status) to assess the distribution of biological resources (e.g., natural communities, species distributions, known occurrence data) relative to the distribution of protected lands (areas protected and managed to maintain biological resource value) to identify any “gaps” in protection (e.g., biological resources that are on public or private lands and not well protected or where linkages need to be considered). The gap analysis will also be used to identify gaps in representation, ecological processes or functions, and management of existing protected areas. The identification of gaps will help to focus the conservation strategy on areas most at risk or that would most benefit from conservation actions (e.g., acquisition, restoration, management, monitoring).

The consultant shall analyze the gaps in conservation in the County through the following:

- Review and address the data gaps identified in the Framework Study, Section 3:
 - Biological Resources: incomplete survey data. (see Appendix 2B table 2-2 of the framework study for reference)
 - Open Space and Conservation Areas: incomplete information regarding the location/boundaries, acreages, and/or management plans of open space and park areas, conservation/preserve areas, conservation easements for mitigation, and HCP/NCCPs which were established for public use, protection of habitats and species, or as mitigation for impacts to species, habitat, and/or water resources associated with development projects. (see Table 3-1 of the Framework Study for reference)
 - Outreach to Jurisdictions and Agencies: incomplete response from all cities/towns in the County and agencies and/or incomplete or unavailable data for conservation lands, activities, or planned mitigation needs. (see section 2 of the framework study for reference)
- Consider and include the following additional information in the gap analysis:
 - The Developable Land Survey conducted by the County, local General Plans, and the local jurisdiction/SANBAG/SCAG growth forecast elements should be considered in the conservation gap analysis to understand what areas are viewed to be generally available for development and what areas could be candidates for conservation.
 - The conservation lands inventory and tracking system in Task 2 will serve as a

baseline for the gap analysis, providing the location, ownership, and management data upon which to build the GIS spatial gap analyses.

The primary goal of the gap analysis is to inform the next step of the conservation process, the conceptual Reserve Design. The gap analysis is an integral part in development of the Reserve Design because it provides an understanding of the relationship between land ownership and conservation, including wildlife and habitat linkages or connections that can be made with existing and other potential conservation areas that would be most beneficial for focal species conservation. To complete a thorough gap analysis, the consultant will need to work with key stakeholders in obtaining accurate information. This process will need to be coordinated closely with SANBAG and County staff to efficiently manage the outreach effort. The key elements of the analysis will be documented in a technical memorandum.

Deliverables:

- Technical Memorandum/Gap Analysis Report
- GIS spatial analysis data and results

4. Develop a conceptual reserve design that identifies potential lands needing protection to sustain natural resources while considering ecological, social, and economic factors

Development of the Reserve Design in Task 4 will flow out of the gap analysis in Task 3. The Reserve Design will identify lands needing protection to sustain natural resources while considering ecological, social, and economic factors. The Reserve Design will be conceptual, in the sense that potential areas will be identified for protection of natural values such as biodiversity, ecosystem functions, or to offset adverse effects from use or development. General assessments will be made of habitat values and its importance to the preservation of existing and potential future threatened and endangered species. The objectives of the Reserve Design will be to achieve species, habitat, and function representativeness and persistence, while not specifying individual properties. Flexibility needs to be provided for public and private entities to achieve conservation values through strategies that are biologically sound, address federal and state regulatory requirements, and enable the public and private sectors to provide for the housing, employment, and other needs of a growing population. The conceptual Reserve Design will need to incorporate current and future conditions, within reasonable and practical limitations, including climate and urbanization changes to be successful long-term. This overall approach is consistent with Principle 1 of the Framework Study, which states “Increase certainty while maintaining flexibility for both the preservation/conservation of habitat as well as for land development and infrastructure permitting.” The Reserve Design is intended as a win-win for both the preservation of species together with the accommodation of growth.

The consultant shall start the development of the Reserve Design structure through the following:

- Obtain input from the Environment Element Group on criteria that are important as the Reserve Design is conceived. Discussions will also be needed with local jurisdictions

concerning open space and conservation areas they deem important and consistent with their General Plans. An outgrowth of the Reserve Design process may also be recommendations on adjustments to local General Plan land use designation and policies.

- Conduct detailed biological analyses needed for species that would most likely require mitigation in association with regulatory permitting as outlined in the Section 4 and Principle 13 of the Framework Study. Section 4 of the Framework Study contains the description of the laws, regulations, policies, and planning pertinent to the preparation of the Reserve Design. This would be based on existing biological data. No new field surveys are anticipated.
- Conduct geographical location analyses to understand where focal species locations overlap with development concerns. Integrate biological and geographical analyses to focus on incorporating complete datasets of species occurrences to support species habitat modeling. This task would be integral to the Gap Analysis and Reserve Design process which identifies important areas for long-term protection and management for focal species.
- Consider the practicality of “species relocation” in cases when abundant and suitable species habitat exists nearby or offsite. The Reserve Design should not force habitat connectivity where and when the existing built environment would make for unsafe interactions between humans and some protected (predator) species.
- Consider in the reserve design all of the following factors: location, size, connectivity, replication, alignment of boundaries.
- Document and present datasets and the methodology used in the Reserve Design process to the stakeholders for quality and input purposes. Areas considered for inclusion into the Reserve Design should be verified through surveys or assessments by a qualified biologist(s) and local land use authorities to ensure that the area provides suitable, quality habitat for focal or other target species.

As noted in the Principle 5 of the Framework Study, “Recognize that jurisdictional and other stakeholder participation in a more comprehensive approach to conservation planning will be voluntary, but that participating in the more comprehensive approach will provide benefits for most of those participating.” Future conservation efforts must seek a balance between development and conservation interests. Voluntary participation by local jurisdictions and special districts is key and would be expected because land use authorities and other entities have their own discrete responsibilities/oversights. Success of the Reserve Design development will depend on the incorporation of scientifically-accepted tenets of conservation biology together with the cooperation from local jurisdictions and regulatory permitting agencies.

Deliverables:

- Technical memorandum/Reserve Design report and methodologies
- Geographical and biological GIS spatial analysis data

5. Define phase three next steps and commitments necessary to further implement the principles identified in the Framework Study

It will be important to conclude the initial steps of the tracking system, gap analysis, and reserve

design with clarity in how to proceed to the next phase. From the Framework Study, future phases may be focused on the creation of detailed conservation strategies by conservation subareas and management methods. Financial and personnel resources believed to be needed will continue to be outlined as well. However, next steps could be modified as this project moves forward. Direction of the project will be guided through collaboration and participation of the various stakeholders: elected officials, local agency staff, resource agencies, environmental stakeholders, landowners, and the development community. Direction of the project will be guided through collaboration and participation of the various stakeholders: elected officials, local agency staff, resource agencies, environmental stakeholders, landowners, and the development community.

Deliverable:

- Notes and recommendations on next steps defined by stakeholder groups, to be included in the final report.

6. Document all results of the analysis and comments from stakeholders

Task 6 will document the results of Tasks 1-5. The final analysis and report will reference the inventory, data, methodologies, strategies, and mapping assembled in the course of the study. The SANBAG GIS Department will also be available to assist in preparing mapping products. A draft of the report will be made available to the Environment Element Group for review and comment, following which a final report will be prepared.

Deliverables:

- Draft and final study reports

SCHEDULE

The target schedule for completion is 15 months, with an approximate November 2015 start date for the consultant contract. This relatively aggressive schedule will help the Environment Element Group to focus its efforts with a specific end result in mind. The target for completion of the draft report will be 12 months. The schedule for intermediate study milestones is identified below:


1. Project management – Initiation in month 1, with ongoing project management
2. Create an inventory system of existing conservation lands and establish a system for long-term tracking of new conservation acquisitions – completion by month 4
3. Conduct conservation gap analysis on focal species occurrences and known conservation lands – Completion by month 7
4. Develop a conceptual reserve design that identifies potential lands needing protection to sustain natural resources while considering ecological, social, and economic factors – Completion by month 11
5. Define phase three next steps and commitments necessary to further implement the principles identified in the Framework Study – completion by month 12
6. Document all results of the analysis and comments from stakeholders – Draft final report

completion by month 12, followed by stakeholder review and delivery of final report by month 15

Three months are being allowed between the draft and final reports for circulation and review/comment by a broad range of stakeholders and for presentations to elected officials at SANBAG committees.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: MARCH 9, 2016 
FROM: SAMUEL MARTINEZ, Assistant Executive Officer
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item 9 – Review and Consideration of Policy Updates
Related to Approval of SB 239 - Contracts for the Provisions of Fire
Protection by Contract

RECOMMENDATION:

Staff recommends that the Commission continue the item to the April 20, 2016 hearing.

BACKGROUND:

Senate Bill (SB) 239 was signed by Governor Brown in October 2015 and became effective January 1, 2016. SB 239 was authored by Senator Hertzberg, which added a new section to address contracts between two or more public agencies for fire protection and emergency response.

Due to the extensive nature of the bill's requirements and the need for new procedures related to providing new or extended fire protection contracts, LAFCO staff is requesting additional time to evaluate the bill; therefore, it is staff's recommendation that the Commission continue the item to the April 20, 2016 hearing.

Staff will be happy to answer any questions prior to or at the Commission hearing.

Attachment:

SB 239 (Hertzberg) Local Services: Contracts: Fire Protection Services

Senate Bill No. 239

CHAPTER 763

An act to amend Sections 56017.2 and 56133 of, and to add Section 56134 to, the Government Code, relating to local services.

[Approved by Governor October 10, 2015. Filed with
Secretary of State October 10, 2015.]

LEGISLATIVE COUNSEL'S DIGEST

SB 239, Hertzberg. Local services: contracts: fire protection services.

Existing law prescribes generally the powers and duties of the local agency formation commission in each county with respect to the review approval or disapproval of proposals for changes of organization or reorganization of cities and special districts within that county. Existing law permits a city or district to provide extended services, as defined, outside its jurisdictional boundaries only if it first requests and receives written approval from the local agency formation commission in the affected county. Under existing law, the commission may authorize a city or district to provide new or extended services outside both its jurisdictional boundaries and its sphere of influence under specified circumstances.

This bill would, with certain exceptions, permit a public agency to exercise new or extended services outside the public agency's jurisdictional boundaries pursuant to a fire protection contract, as defined, only if the public agency receives written approval from the local agency formation commission in the affected county. The bill would require that the legislative body of a public agency that is not a state agency adopt a resolution of application and submit the resolution along with a plan for services, as provided, that a proposal by a state agency be initiated by the director of the agency with the approval of the Director of Finance, and that a proposal by a local agency that is currently under contract for the provision of fire protection services be initiated by the local agency and approved by the Director of Finance. The bill would require, prior to adopting the resolution or submitting the proposal, the public agency to enter into a written agreement for the performance of new or extended services pursuant to a fire protection contract with, or provide written notice of a proposed fire protection contract to, each affected public agency and recognized employee organization representing firefighters in the affected area, and to conduct a public hearing on the resolution.

The bill would require the commission to approve or disapprove the proposal as specified. The bill would require the commission to consider, among other things, a comprehensive fiscal analysis prepared by the executive officer in accordance with specified requirements.

The California Constitution requires local agencies, for the purpose of ensuring public access to the meetings of public bodies and the writings of public officials and agencies, to comply with a statutory enactment that amends or enacts laws relating to public records or open meetings and contains findings demonstrating that the enactment furthers the constitutional requirements relating to this purpose.

This bill would make legislative findings to that effect.

This bill would incorporate additional changes to Section 56133 of the Government Code proposed by AB 402 that would become operative if this bill and AB 402 are both enacted and this bill is enacted last.

The people of the State of California do enact as follows:

SECTION 1. Section 56017.2 of the Government Code is amended to read:

56017.2. "Application" means any of the following:

(a) A resolution of application or petition initiating a change of organization or reorganization with supporting documentation as required by the commission or executive officer.

(b) A request for a sphere of influence amendment or update pursuant to Section 56425.

(c) A request by a city or district for commission approval of an extension of services outside the agency's jurisdictional boundaries pursuant to Section 56133.

(d) A request by a public agency for commission approval of an extension of services outside the agency's jurisdictional boundaries pursuant to Section 56134.

SEC. 2. Section 56133 of the Government Code is amended to read:

56133. (a) A city or district may provide new or extended services by contract or agreement outside its jurisdictional boundaries only if it first requests and receives written approval from the commission in the affected county.

(b) The commission may authorize a city or district to provide new or extended services outside its jurisdictional boundaries but within its sphere of influence in anticipation of a later change of organization.

(c) The commission may authorize a city or district to provide new or extended services outside its jurisdictional boundaries and outside its sphere of influence to respond to an existing or impending threat to the public health or safety of the residents of the affected territory if both of the following requirements are met:

(1) The entity applying for the contract approval has provided the commission with documentation of a threat to the health and safety of the public or the affected residents.

(2) The commission has notified any alternate service provider, including any water corporation as defined in Section 241 of the Public Utilities Code, or sewer system corporation as defined in Section 230.6 of the Public

Utilities Code, that has filed a map and a statement of its service capabilities with the commission.

(d) The executive officer, within 30 days of receipt of a request for approval by a city or district of a contract to extend services outside its jurisdictional boundary, shall determine whether the request is complete and acceptable for filing or whether the request is incomplete. If a request is determined not to be complete, the executive officer shall immediately transmit that determination to the requester, specifying those parts of the request that are incomplete and the manner in which they can be made complete. When the request is deemed complete, the executive officer shall place the request on the agenda of the next commission meeting for which adequate notice can be given but not more than 90 days from the date that the request is deemed complete, unless the commission has delegated approval of those requests to the executive officer. The commission or executive officer shall approve, disapprove, or approve with conditions the contract for extended services. If the contract is disapproved or approved with conditions, the applicant may request reconsideration, citing the reasons for reconsideration.

(e) This section does not apply to any of the following:

(1) Contracts or agreements solely involving two or more public agencies where the public service to be provided is an alternative to, or substitute for, public services already being provided by an existing public service provider and where the level of service to be provided is consistent with the level of service contemplated by the existing service provider.

(2) Contracts for the transfer of nonpotable or nontreated water.

(3) Contracts or agreements solely involving the provision of surplus water to agricultural lands and facilities, including, but not limited to, incidental residential structures, for projects that serve conservation purposes or that directly support agricultural industries. However, prior to extending surplus water service to any project that will support or induce development, the city or district shall first request and receive written approval from the commission in the affected county.

(4) An extended service that a city or district was providing on or before January 1, 2001.

(5) A local publicly owned electric utility, as defined by Section 9604 of the Public Utilities Code, providing electric services that do not involve the acquisition, construction, or installation of electric distribution facilities by the local publicly owned electric utility, outside of the utility's jurisdictional boundaries.

(6) A fire protection contract, as defined in subdivision (a) of Section 56134.

SEC. 2.5. Section 56133 of the Government Code is amended to read:

56133. (a) A city or district may provide new or extended services by contract or agreement outside its jurisdictional boundary only if it first requests and receives written approval from the commission.

(b) The commission may authorize a city or district to provide new or extended services outside its jurisdictional boundary but within its sphere of influence in anticipation of a later change of organization.

(c) If consistent with adopted policy, the commission may authorize a city or district to provide new or extended services outside its jurisdictional boundary and outside its sphere of influence to respond to an existing or impending threat to the health or safety of the public or the residents of the affected territory, if both of the following requirements are met:

(1) The entity applying for approval has provided the commission with documentation of a threat to the health and safety of the public or the affected residents.

(2) The commission has notified any alternate service provider, including any water corporation as defined in Section 241 of the Public Utilities Code, that has filed a map and a statement of its service capabilities with the commission.

(d) The executive officer, within 30 days of receipt of a request for approval by a city or district to extend services outside its jurisdictional boundary, shall determine whether the request is complete and acceptable for filing or whether the request is incomplete. If a request is determined not to be complete, the executive officer shall immediately transmit that determination to the requester, specifying those parts of the request that are incomplete and the manner in which they can be made complete. When the request is deemed complete, the executive officer shall place the request on the agenda of the next commission meeting for which adequate notice can be given but not more than 90 days from the date that the request is deemed complete, unless the commission has delegated approval of requests made pursuant to this section to the executive officer. The commission or executive officer shall approve, disapprove, or approve with conditions the extended services. If the new or extended services are disapproved or approved with conditions, the applicant may request reconsideration, citing the reasons for reconsideration.

(e) This section does not apply to any of the following:

(1) Two or more public agencies where the public service to be provided is an alternative to, or substitute for, public services already being provided by an existing public service provider and where the level of service to be provided is consistent with the level of service contemplated by the existing service provider.

(2) The transfer of nonpotable or nontreated water.

(3) The provision of surplus water to agricultural lands and facilities, including, but not limited to, incidental residential structures, for projects that serve conservation purposes or that directly support agricultural industries. However, prior to extending surplus water service to any project that will support or induce development, the city or district shall first request and receive written approval from the commission in the affected county.

(4) An extended service that a city or district was providing on or before January 1, 2001.

(5) A local publicly owned electric utility, as defined by Section 9604 of the Public Utilities Code, providing electric services that do not involve the acquisition, construction, or installation of electric distribution facilities by the local publicly owned electric utility, outside of the utility's jurisdictional boundary.

(6) A fire protection contract, as defined in subdivision (a) of Section 56134.

(f) This section applies only to the commission of the county in which the extension of service is proposed.

SEC. 3. Section 56134 is added to the Government Code, to read:

56134. (a) (1) For the purposes of this section, "fire protection contract" means a contract or agreement for the exercise of new or extended fire protection services outside a public agency's jurisdictional boundaries, as authorized by Chapter 4 (commencing with Section 55600) of Part 2 of Division 2 of Title 5 of this code or by Article 4 (commencing with Section 4141) of Chapter 1 of Part 2 of Division 4 of the Public Resources Code, except those contracts entered into pursuant to Sections 4143 and 4144 of the Public Resources Code, that does either of the following:

(A) Transfers responsibility for providing services in more than 25 percent of the area within the jurisdictional boundaries of any public agency affected by the contract or agreement.

(B) Changes the employment status of more than 25 percent of the employees of any public agency affected by the contract or agreement.

(2) A contract or agreement for the exercise of new or extended fire protection services outside a public agency's jurisdictional boundaries, as authorized by Chapter 4 (commencing with Section 55600) of Part 2 of Division 2 of Title 5 of this code or Article 4 (commencing with Section 4141) of Chapter 1 of Part 2 of Division 4 of the Public Resources Code, except those contracts entered into pursuant to Sections 4143 and 4144 of the Public Resources Code, that, in combination with other contracts or agreements, would produce the results described in subparagraph (A) or (B) of paragraph (1) shall be deemed a fire protection contract for the purposes of this section.

(3) For the purposes of this section, "jurisdictional boundaries" shall include the territory or lands protected pursuant to a fire protection contract entered into on or before December 31, 2015. An extension of a fire protection contract entered into on or before December 31, 2015, that would produce the results described in subparagraph (A) or (B) of paragraph (1) shall be deemed a fire protection contract for the purposes of this section.

(b) Notwithstanding Section 56133, a public agency may provide new or extended services pursuant to a fire protection contract only if it first requests and receives written approval from the commission in the affected county pursuant to the requirements of this section.

(c) A request by a public agency for commission approval of new or extended services provided pursuant to a fire protection contract shall be made by the adoption of a resolution of application as follows:

(1) In the case of a public agency that is not a state agency, the application shall be initiated by the adoption of a resolution of application by the legislative body of the public agency proposing to provide new or extended services outside the public agency's current service area.

(2) In the case of a public agency that is a state agency, the application shall be initiated by the director of the state agency proposing to provide new or extended services outside the agency's current service area and be approved by the Director of Finance.

(3) In the case of a public agency that is a local agency currently under contract with a state agency for the provision of fire protection services and proposing to provide new or extended services by the expansion of the existing contract or agreement, the application shall be initiated by the public agency that is a local agency and be approved by the Director of Finance.

(d) The legislative body of a public agency or the director of a state agency shall not submit a resolution of application pursuant to this section unless both of the following occur:

(1) The public agency does either of the following:

(A) Obtains and submits with the resolution a written agreement validated and executed by each affected public agency and recognized employee organization that represents firefighters of the existing and proposed service providers consenting to the proposed fire protection contract.

(B) Provides, at least 30 days prior to the hearing held pursuant to paragraph (2), written notice to each affected public agency and recognized employee organization that represents firefighters of the existing and proposed service providers of the proposed fire protection contract and submits a copy of each written notice with the resolution of application. The notice shall, at minimum, include a full copy of the proposed contract.

(2) The public agency conducts an open and public hearing on the resolution, conducted pursuant to the Ralph M. Brown Act (Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5) or the Bagley-Keene Open Meeting Act (Article 9 (commencing with Section 11120) of Chapter 1 of Part 1 of Division 3 of Title 2), as applicable.

(e) A resolution of application submitted pursuant to this section shall be submitted with a plan which shall include all of the following information:

(1) The total estimated cost to provide the new or extended fire protection services in the affected territory.

(2) The estimated cost of the new or extended fire protection services to customers in the affected territory.

(3) An identification of existing service providers, if any, of the new or extended services proposed to be provided and the potential fiscal impact to the customers of those existing providers.

(4) A plan for financing the exercise of the new or extended fire protection services in the affected territory.

(5) Alternatives for the exercise of the new or extended fire protection services in the affected territory.

(6) An enumeration and description of the new or extended fire protection services proposed to be extended to the affected territory.

(7) The level and range of new or extended fire protection services.

(8) An indication of when the new or extended fire protection services can feasibly be extended to the affected territory.

(9) An indication of any improvements or upgrades to structures, roads, sewer or water facilities, or other conditions the public agency would impose or require within the affected territory if the fire protection contract is completed.

(10) A determination, supported by documentation, that the proposed fire protection contract meets the criteria established pursuant to subparagraph (A) or (B) of paragraph (1) or paragraph (2), as applicable, of subdivision (a).

(f) The applicant shall cause to be prepared by contract an independent comprehensive fiscal analysis to be submitted with the application pursuant to this section. The analysis shall review and document all of the following:

(1) A thorough review of the plan for services submitted by the public agency pursuant to subdivision (e).

(2) How the costs of the existing service provider compare to the costs of services provided in service areas with similar populations and of similar geographic size that provide a similar level and range of services and make a reasonable determination of the costs expected to be borne by the public agency providing new or extended fire protection services.

(3) Any other information and analysis needed to support the findings required by subdivision (j).

(g) The clerk of the legislative body of a public agency or the director of a state agency adopting a resolution of application pursuant to this section shall file a certified copy of the resolution with the executive officer.

(h) (1) The executive officer, within 30 days of receipt of a public agency's request for approval of a fire protection contract, shall determine whether the request is complete and acceptable for filing or whether the request is incomplete. If a request does not comply with the requirements of subdivision (d), the executive officer shall determine that the request is incomplete. If a request is determined incomplete, the executive officer shall immediately transmit that determination to the requester, specifying those parts of the request that are incomplete and the manner in which they can be made complete. When the request is deemed complete, the executive officer shall place the request on the agenda of the next commission meeting for which adequate notice can be given but not more than 90 days from the date that the request is deemed complete.

(2) The commission shall approve, disapprove, or approve with conditions the contract for new or extended services following the hearing at the commission meeting, as provided in paragraph (1). If the contract is disapproved or approved with conditions, the applicant may request reconsideration, citing the reasons for reconsideration.

(i) (1) The commission shall not approve an application for approval of a fire protection contract unless the commission determines that the public agency will have sufficient revenues to carry out the exercise of the new or

extended fire protection services outside its current area, except as specified in paragraph (2).

(2) The commission may approve an application for approval of a fire protection contract where the commission has determined that the public agency will not have sufficient revenue to provide the proposed new or different functions or class of services, if the commission conditions its approval on the concurrent approval of sufficient revenue sources pursuant to Section 56886. In approving a proposal, the commission shall provide that, if the revenue sources pursuant to Section 56886 are not approved, the authority of the public agency to provide new or extended fire protection services shall not be exercised.

(j) The commission shall not approve an application for approval of a fire protection contract unless the commission determines, based on the entire record, all of the following:

(1) The proposed exercise of new or extended fire protection services outside a public agency's current service area is consistent with the intent of this division, including, but not limited to, the policies of Sections 56001 and 56300.

(2) The commission has reviewed the comprehensive fiscal analysis prepared pursuant to subdivision (f).

(3) The commission has reviewed any testimony presented at the public hearing.

(4) The proposed affected territory is expected to receive revenues sufficient to provide public services and facilities and a reasonable reserve during the three fiscal years following the effective date of the contract or agreement between the public agencies to provide the new or extended fire protection services.

(k) At least 21 days prior to the date of the hearing, the executive officer shall give mailed notice of that hearing to each affected local agency or affected county, and to any interested party who has filed a written request for notice with the executive officer. In addition, at least 21 days prior to the date of that hearing, the executive officer shall cause notice of the hearing to be published in accordance with Section 56153 in a newspaper of general circulation that is circulated within the territory affected by the proposal proposed to be adopted and shall post the notice of the hearing on the commission's Internet Web site.

(l) The commission may continue from time to time any hearing called pursuant to this section. The commission shall hear and consider oral or written testimony presented by any affected local agency, affected county, or any interested person who appears at any hearing called and held pursuant to this section.

(m) This section shall not be construed to abrogate a public agency's obligations under the Meyers-Milias-Brown Act (Chapter 10 (commencing with Section 3500) of Division 4 of Title 1).

SEC. 4. The Legislature finds and declares that, with respect to fire protection contracts subject to this act, the provisions of this act are not intended to change, alter, or in any way affect either of the following:

(a) The existing jurisdiction of a local agency formation commission over proceedings that involve the provision of prehospital emergency medical services.

(b) Mutual aid agreements, including mutual aid agreements entered into pursuant to the California Emergency Services Act (Chapter 7 (commencing with Section 8550) of Division 1 of Title 1 of the Government Code) or the Fire Protection District Law of 1987 (Part 2.7 (commencing with Section 13800) of Division 12 of the Health and Safety Code).

SEC. 5. The Legislature finds and declares that Section 3 of this act, which adds Section 56134 to the Government Code, furthers, within the meaning of paragraph (7) of subdivision (b) of Section 3 of Article I of the California Constitution, the purposes of that constitutional section as it relates to the right of public access to the meetings of local public bodies or the writings of local public officials and local agencies. Pursuant to paragraph (7) of subdivision (b) of Section 3 of Article I of the California Constitution, the Legislature makes the following findings:

This act provides for notice to the public in accordance with existing provisions of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 and will ensure that the right of public access to local agency meetings is protected.

SEC. 6. Section 2.5 of this bill incorporates amendments to Section 56133 of the Government Code proposed by both this bill and Assembly Bill 402. It shall only become operative if (1) both bills are enacted and become effective on or before January 1, 2016, (2) each bill amends Section 56133 of the Government Code, and (3) this bill is enacted after Assembly Bill 402, in which case Section 2 of this bill shall not become operative.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: MARCH 9, 2016

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
SAMUEL MARTINEZ, Assistant Executive Officer

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item 10 – Review and Consideration of Policy Updates
Related to Approval of AB 402 – Special Provisions for Review of Out
of Agency Contracts Outside a Sphere of Influence Within San
Bernardino County

RECOMMENDATION:

Staff recommends that the Commission:

1. Approve the new policy regarding service(s) outside an agency's boundary and sphere of influence pursuant to Government Code Section 56133.5 as shown below:

"A proposal by a city or district to provide new or extended services outside the agency's boundaries and outside the agency's sphere of influence would come under the provisions of Government Code Section 56133.5, which will require Commission approval at a noticed public hearing prior to the signing of an agreement/contract for the provision of the service."

2. Approve the revisions and amendments to the Commission's existing policies and procedures on Out of Agency Service Contracts (Section IV – Application Processing, Chapter 2: Out of Agency Service Contracts) as outlined in Attachment #1 to this report;
3. Adopt LAFCO Resolution No. 3217 reflecting the changes to the Policy and Procedure Manual and direct the Executive Officer to distribute to affected and interested parties and to update the Commission Website.

BACKGROUND:

Assembly Bill (AB) 402 was signed by Governor Brown in October 2015 and became effective January 1, 2016. It establishes a five-year pilot program for both Napa and San Bernardino Counties that allows both Commissions a mechanism to authorize the provision of service outside an agency's boundaries and outside its sphere of influence when deemed appropriate.

AB 402, which was authored by Assemblyman Dodd (Napa), provides the ability for both Napa and San Bernardino LAFCOs to approve outside service contracts beyond an agency's sphere of influence under a new section, Government Code Section 56133.5. This process requires that the Commission make the following determinations regarding the area to be served outside the agency's sphere of influence, at a noticed public hearing:

- That the proposed service extension was addressed in a service review,
- That the proposed service extension will not have an adverse impact on open space/agricultural lands and/or is not growth inducing; and,
- That inclusion of the area to be served into the agency's sphere of influence is not feasible or desirable based on adopted commission policies.

The proposed changes through this bill are very similar to the proposed language that San Bernardino LAFCO has been advocating for years related to Government Code Section 56133. As the Commission is well aware, the current language prohibits the City of Big Bear Lake from serving undeveloped parcels within portions of its water service area (areas acquired through condemnation of the former Southern California Water Company's System in Big Bear) since many of those areas are outside of its corporate boundaries and outside of its sphere of influence. In essence, AB 402 now affords the Commission the ability to allow for such connections outside an agencies sphere of influence pursuant to the provisions identified in Government Code Section 56133.5. It should be noted that the statute requires that each Commission, prior to January 1, 2020, submit a report to the Legislature on its pilot program including how many requests it approves, approves with condition, or denies pursuant to this section.

In order to implement AB 402, LAFCO staff is recommending approval of the following proposed policy to be included as Policy 3 in Chapter 2 of the Application Processing Section of the Policy and Procedure Manual:

3. *"A proposal by a city or district to provide new or extended services outside the agency's boundaries and outside the agency's sphere of influence would come under the provisions of Government Code Section 56133.5, which will require Commission approval at a noticed public hearing prior to the signing of an agreement/contract for the provision of the service."*

LAFCO staff is also proposing additional language and revisions to the Commission's current application and review procedures to specifically address Government Code Section 56133.5. The proposed amendments also includes minor technical revisions to standardize the language throughout the section. Attachment #1 to this report shows the additions and deletions to Commission's existing policies and procedures on Out of Agency Service Contracts (Section IV, Chapter 2: Out of Agency Service Contracts).

CONCLUSION:

Staff recommends that the Commission adopt the proposed policy regarding service(s) outside an agency's boundary and sphere of influence pursuant to Government Code Section 56133.5 as well as proposed changes, corrections or revisions to the Commission's existing policies and procedures on Out of Agency Service Contracts. Staff will be happy to answer any questions prior to or at the Commission hearing.

KRM/sm

Attachments:

1. Chapter 2: Out of Agency Service Contracts (with track changes)
2. AB 402 (Dodd) Local Agency Services: contracts
3. Draft Resolution No.3217

Chapter 2 :
Out of Agency Service Contracts
(with track changes)

Attachment 1

TRACK CHANGE LEGEND:

~~Deletions to Existing Policy and Procedures~~

Additions to Existing Policy and Procedures

CHAPTER 2: OUT OF AGENCY SERVICE CONTRACTS

BACKGROUND:

Beginning January 1, 1994 the Local Agency Formation Commission was charged with the responsibility for reviewing and taking action on a city or district contract to extend service outside its jurisdiction under the provisions of Government Code Section 56133. These are unique actions not directly related to the processing of other types of proposals as defined in the Cortese-Knox-Hertzberg Local Government Reorganization Act and these policies and procedures will provide guidance on their processing.

POLICIES:

(Adopted May 18, 1994; Amended December 20, 2000.)

1. DEFINITIONS

The definition of terms that follow has been developed to assist in the implementation of Government Code Section 56133 since its terminology, in some areas, is not reflective of current statutory definitions or has no statutory definition within Cortese-Knox-Hertzberg:

- A. "New or extended services" shall mean for ~~C~~cities, the provision of those services authorized a city under its enabling legislation; and for ~~S~~special ~~D~~districts, service shall remain as defined in Government Code Section 56074. It is important to note that a ~~D~~district would be precluded from providing a "new service" unless it has been first authorized that service under existing special district regulations regarding activation of latent functions or services.
- B. "Contract or agreement" shall mean a contract, agreement, or other legal instrument, which requires or agrees to the delivery of service to a property or a defined service area.
- C. "Written approval of the Commission" shall mean ~~for development-related contracts,~~ the adoption of a resolution of the Commission approving the service agreement/contract at a noticed public hearing; ~~for non-development related contracts written approval of the Commission shall mean~~ or the document signed by the Executive Officer authorizing the completion of the contract in cases where the Executive Officer has been

authorized to approve the service agreement/contract (see Policy 2 below).

- D. "Affected County" shall be defined in the same manner as Government, Code Section 56012 but relating to the area to which contractual service will be delivered.
- E. "Anticipation of a later change of organization." The inclusion of an area to be served within the sphere of influence of the serving agency may be sufficient to comply with this provision.
- F. "Public Agency" shall be defined in compliance with Government Code Section 56070. ~~The statutory definition of Public Agency is "the state or any state agency, board or commission, any city, county, city and county, special district or other political subdivision, or any agency, board or commission of the city, county, city and county, special district, or other political subdivision".~~

— The definition of public agency does not include a private or mutual water company. Any contract by a city or district to extend service to these types of service companies would require approval from the Commission prior to contract execution.

- G. "Health and safety ~~emergency~~ concern" shall mean the extension of service to alleviate an immediate health and/or safety problem. Such connections would be limited to the provision of water and/or sewer service to an existing structure, the connection to a failing mutual or private water system requiring auxiliary service, ~~the provision of fire protection and/or paramedic services as supplemental or alternative source for service,~~ and other similar threats related to health and safety.
- 2. The Commission has determined that the Executive Officer shall have the authority to approve, or conditionally approve, proposals to extend services outside jurisdictional boundaries in cases where the service extension is proposed to remedy a ~~clear~~ health and safety concern. In addition, the Executive Officer shall have the authority to approve or conditionally approve service extensions where the services in question will not facilitate development ~~(for example, an inter-agency contract for fire protection services)~~. In cases where the Executive Officer recommends denial of a proposed service extension, that proposal shall be placed on the next agenda for which notice can be provided. After the public hearing, the Commission may approve, conditionally approve, or deny the contract.
 - 3. A proposal by a city or district to provide new or extended services outside the agency's boundaries and outside the agency's sphere of influence would come under the provisions of Government Code Section 56133.5, which will require

Commission approval at a noticed public hearing prior to the signing of an agreement/contract for the provision of the service.

34. In the case where a city or district authorized to provide water service has acquired the system of a private or mutual water company prior to the enactment of this legislation, those agencies shall be authorized to continue such service and provide additional connections within the ~~certificated~~-service area of the private or mutual water company defined by the Public Utilities Commission or other appropriate agency, at the time of acquisition without LAFCO review or approval as outlined in Government Code Section 56133. The continuation of service connections under this policy shall not be constrained by the sphere of influence of that local agency ~~at the time~~ provided that the area to be served is within the service area of the private or mutual water company previously defined by the PUC or other appropriate agency.

Proposals to extend service outside this previously defined ~~certificated~~-service area and outside the sphere of influence of the agency providing service would come under the provisions of Government Code Section 56133.5, which will require Commission for the review and approval by the Commission at a noticed public hearing prior to the signing of an agreement/contract ~~agreement~~ for the provision of the service.

46. For a request for exemption pursuant to Government Code Section 56133(e), the Commission shall make the determination that the service(s) to be provided is/are exempt from LAFCO review. The Commission has, in cases where the service extension proposed does not facilitate development or directly affect employees, delegated the authority to make the determination for exemption pursuant to Government Code Section 56133(e) to the Executive Officer.

APPLICATION PROCEDURES FOR GOVERNMENT CODE SECTIONS 56133 and 56133.5:

Unlike the normal initiation process for proposals for jurisdictional change, Government Code Section 56133 provides that only a city or district may request LAFCO review of an out-of-agency service agreement/contract.

Government Code Section 56133 gives LAFCO the authority to review and approve, approve with conditions, or deny ~~these~~ an out-of-agency service agreements/contracts. For all development-related applications for service, the item will be considered by the Commission at a noticed public hearing. The authority for action for a non-development-related agreements/contracts has been delegated to the LAFCO Executive Officer by the Commission, pursuant to policies adopted on December 20, 2000.

In addition, the pilot program for Napa and San Bernardino LAFCOs pursuant to Government Code Section 56133.5, which authorizes a city or district to extend services outside an agency's boundaries and outside its sphere of influence, will also be subject to Commission approval at a noticed public hearing.

1. Application for Review:

The filing requirements for review of an out-of-agency service contract/ agreement shall consist of:

- A. Official Request from Applying Agency. A written request signed by the City Manager/District General Manager requesting approval for an out-of-agency service agreement/contract or an adopted resolution from the city/district proposing to serve outside its boundaries must be submitted.
- B. Payment of Appropriate Filing Fees. The applying agency must submit as part of the application the appropriate filing fees as outlined in the LAFCO ~~Fee~~ Schedule of Fees, Deposits, and Charges in effect at the time of application. In addition, these types of applications are also subject to the following deposits: legal counsel, environmental review, and individual notice. Applicants shall be required to reimburse the Commission for all charges and costs in excess of the deposits outlined above or will be refunded the balance at the close of the application.
- C. A completed application form including the submission of a copy of the proposed agreement/contract that has been signed by the property owner(s) and, if necessary, the agency ~~extending~~ providing service(s), and maps showing the location of the property to be served, existing agency boundaries, the location of the existing infrastructure, and the proposed location of the infrastructure to be extended.
- D. Any other information deemed appropriate by the Executive Officer in order to review the service extension request based upon its special circumstances.

2. Environmental Review Requirements:

The review of an out-of-agency service agreement/contract ~~request~~ is subject to environmental review procedures as outlined in Section V of this Manual.

REVIEW PROCEDURES FOR GOVERNMENT CODE SECTIONS 56133 and 56133.5:

- 1. ~~A d~~Development-related agreements/contracts associated with the development of a ~~tracts~~, a ~~subdivisions~~, a single-family dwelling unit, a commercial/industrial development ~~on a parcel, or and~~ other types of development-related projects, or a

proposal to provide new or extended services outside an agency's boundaries and outside its sphere of influence will require the following review:

- A. The city or district proposing to provide service(s) outside its boundaries shall submit to LAFCO a completed application, with all its component parts as previously defined, for review and consideration. Within 30 days, the LAFCO Executive Officer shall notify the entity whether or not the application filing is complete. If incomplete, the applying agency will be notified of the specific insufficiencies within 30 days, as required by law.
 - B. The LAFCO staff shall forward a copy of the application to various County ~~D~~departments for their review and comment.
 - C. Completion of the CEQA review process will be required prior to placement on the Commission's agenda.
 - D. If necessary, a meeting with the applying agency and/or the various County departments may be held dependent upon the circumstances and/or issues related to the service agreement/contract. The determination of whether or not to hold the meeting shall be made by the LAFCO Executive Officer.
 - E. Once these required elements have been completed, the item will be placed on a Commission Agenda. Surrounding property owners/registered voters will be notified of the proposed service extension request through individual notification. At a noticed public hearing, the Commission will consider the staff's presentation and presentations, if any, by interested and affected parties, and make a determination.
 - F. The Commission has the authority to approve, approve with conditions, or deny the request for authorization of an out-of-agency service ~~extension~~agreement/contract. The Commission's determination and any required findings will be set out in a resolution which specifies the property or area to be served, the services to be provided, and the authority of the agency to provide its services outside its boundaries.
2. A n~~Non-development related agreements/contracts~~ (Administrative Review by LAFCO Executive Officer) ~~that are related to provide~~ing service(s) to an existing dwelling unit, a commercial building, ~~etc. or those~~a contracts between public agencies for ~~such items as~~ fire protection mutual or automatic aid, etc. an agreement/contract where the services will not facilitate development, etc. will be processed as follows:
- A. Prior to the execution of an agreement/contract for service outside their boundaries, the city/district proposing to provide the service shall submit to

LAFCO a completed application, with all its component parts as previously defined, for review and consideration.

- B. Completion of the CEQA review process will be required prior to action by the Executive Officer.
- C. The Executive Officer's administrative review will include the following determinations:
 - (1) The proposed service extension is either non-development-related and/or involves health and safety concerns as defined by Commission policy.
 - (2) The area to be served is within the sphere of influence of the agency requesting to provide service outside its boundaries.
 - (3) The environmental analysis/assessment, as required by CEQA, has been completed.
- D. The Executive officer can approve, approve with conditions, or deny the request for service extension. If the Executive Officer's recommendation is denial, that determination will be placed on the next available Commission agenda for which notice can be provided for discussion of the determination.

AB 402 (Dodd) Local Agency Services: contracts

Attachment 2

Assembly Bill No. 402

CHAPTER 431

An act to amend Section 56133 of, and to add and repeal Section 56133.5 of, the Government Code, relating to local agency formation.

[Approved by Governor October 2, 2015. Filed with
Secretary of State October 2, 2015.]

LEGISLATIVE COUNSEL'S DIGEST

AB 402, Dodd. Local agency services: contracts.

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 governs the procedures for the formation and change of organization of cities and special districts. Existing law permits a city or district to provide extended services, as defined, outside its jurisdictional boundaries only if it first requests and receives written approval from the local agency formation commission in the affected county. Under existing law, the commission may authorize a city or district to provide new or extended services outside both its jurisdictional boundaries and its sphere of influence under specified circumstances, including when responding to an impending threat to the public health or safety of the residents in the affected territory where specified requirements are met.

This bill would revise the circumstances under which the commission may authorize a city or district to provide new or extended services. This bill would additionally establish a pilot program, until January 1, 2021, for the Napa and San Bernardino commissions that would permit those commissions to authorize a city or district to provide new or extended services outside both its jurisdictional boundaries and its sphere of influence under specified circumstances.

This bill would make legislative findings and declarations as to the necessity of a special statute for the Napa and San Bernardino commissions.

This bill would incorporate additional changes to Section 56133 of the Government Code proposed by SB 239 that would become operative if this bill and SB 239 are both enacted and this bill is enacted last.

The people of the State of California do enact as follows:

SECTION 1. Section 56133 of the Government Code is amended to read:

56133. (a) A city or district may provide new or extended services by contract or agreement outside its jurisdictional boundary only if it first requests and receives written approval from the commission.

(b) The commission may authorize a city or district to provide new or extended services outside its jurisdictional boundary but within its sphere of influence in anticipation of a later change of organization.

(c) If consistent with adopted policy, the commission may authorize a city or district to provide new or extended services outside its jurisdictional boundary and outside its sphere of influence to respond to an existing or impending threat to the health or safety of the public or the residents of the affected territory, if both of the following requirements are met:

(1) The entity applying for approval has provided the commission with documentation of a threat to the health and safety of the public or the affected residents.

(2) The commission has notified any alternate service provider, including any water corporation as defined in Section 241 of the Public Utilities Code, that has filed a map and a statement of its service capabilities with the commission.

(d) The executive officer, within 30 days of receipt of a request for approval by a city or district to extend services outside its jurisdictional boundary, shall determine whether the request is complete and acceptable for filing or whether the request is incomplete. If a request is determined not to be complete, the executive officer shall immediately transmit that determination to the requester, specifying those parts of the request that are incomplete and the manner in which they can be made complete. When the request is deemed complete, the executive officer shall place the request on the agenda of the next commission meeting for which adequate notice can be given but not more than 90 days from the date that the request is deemed complete, unless the commission has delegated approval of requests made pursuant to this section to the executive officer. The commission or executive officer shall approve, disapprove, or approve with conditions the extended services. If the new or extended services are disapproved or approved with conditions, the applicant may request reconsideration, citing the reasons for reconsideration.

(e) This section does not apply to two or more public agencies where the public service to be provided is an alternative to, or substitute for, public services already being provided by an existing public service provider and where the level of service to be provided is consistent with the level of service contemplated by the existing service provider.

(f) This section does not apply to the transfer of nonpotable or nontreated water.

(g) This section does not apply to the provision of surplus water to agricultural lands and facilities, including, but not limited to, incidental residential structures, for projects that serve conservation purposes or that directly support agricultural industries. However, prior to extending surplus water service to any project that will support or induce development, the city or district shall first request and receive written approval from the commission in the affected county.

(h) This section does not apply to an extended service that a city or district was providing on or before January 1, 2001.

(i) This section does not apply to a local publicly owned electric utility, as defined by Section 9604 of the Public Utilities Code, providing electric services that do not involve the acquisition, construction, or installation of electric distribution facilities by the local publicly owned electric utility, outside of the utility's jurisdictional boundary.

(j) This section applies only to the commission of the county in which the extension of service is proposed.

SEC. 1.5. Section 56133 of the Government Code is amended to read:

56133. (a) A city or district may provide new or extended services by contract or agreement outside its jurisdictional boundary only if it first requests and receives written approval from the commission.

(b) The commission may authorize a city or district to provide new or extended services outside its jurisdictional boundary but within its sphere of influence in anticipation of a later change of organization.

(c) If consistent with adopted policy, the commission may authorize a city or district to provide new or extended services outside its jurisdictional boundary and outside its sphere of influence to respond to an existing or impending threat to the health or safety of the public or the residents of the affected territory, if both of the following requirements are met:

(1) The entity applying for approval has provided the commission with documentation of a threat to the health and safety of the public or the affected residents.

(2) The commission has notified any alternate service provider, including any water corporation as defined in Section 241 of the Public Utilities Code, that has filed a map and a statement of its service capabilities with the commission.

(d) The executive officer, within 30 days of receipt of a request for approval by a city or district to extend services outside its jurisdictional boundary, shall determine whether the request is complete and acceptable for filing or whether the request is incomplete. If a request is determined not to be complete, the executive officer shall immediately transmit that determination to the requester, specifying those parts of the request that are incomplete and the manner in which they can be made complete. When the request is deemed complete, the executive officer shall place the request on the agenda of the next commission meeting for which adequate notice can be given but not more than 90 days from the date that the request is deemed complete, unless the commission has delegated approval of requests made pursuant to this section to the executive officer. The commission or executive officer shall approve, disapprove, or approve with conditions the extended services. If the new or extended services are disapproved or approved with conditions, the applicant may request reconsideration, citing the reasons for reconsideration.

(e) This section does not apply to any of the following:

(1) Two or more public agencies where the public service to be provided is an alternative to, or substitute for, public services already being provided by an existing public service provider and where the level of service to be

provided is consistent with the level of service contemplated by the existing service provider.

(2) The transfer of nonpotable or nontreated water.

(3) The provision of surplus water to agricultural lands and facilities, including, but not limited to, incidental residential structures, for projects that serve conservation purposes or that directly support agricultural industries. However, prior to extending surplus water service to any project that will support or induce development, the city or district shall first request and receive written approval from the commission in the affected county.

(4) An extended service that a city or district was providing on or before January 1, 2001.

(5) A local publicly owned electric utility, as defined by Section 9604 of the Public Utilities Code, providing electric services that do not involve the acquisition, construction, or installation of electric distribution facilities by the local publicly owned electric utility, outside of the utility's jurisdictional boundary.

(6) A fire protection contract, as defined in subdivision (a) of Section 56134.

(f) This section applies only to the commission of the county in which the extension of service is proposed.

SEC. 2. Section 56133.5 is added to the Government Code, to read:

56133.5. (a) A pilot program is hereby established for the Napa and San Bernardino commissions. If consistent with adopted policy, the Napa and San Bernardino commissions may authorize a city or district to provide new or extended services outside its jurisdictional boundary and outside its sphere of influence to support existing or planned uses involving public or private properties, subject to approval at a noticed public hearing in which the commission makes all of the following determinations:

(1) The extension of service or services deficiency was identified and evaluated in a review of municipal services prepared pursuant to Section 56430.

(2) The extension of service will not result in either (1) adverse impacts on open space or agricultural lands or (2) growth inducing impacts.

(3) A sphere of influence change involving the subject territory and its affected agency is not feasible under this division or desirable based on the adopted policies of the commission.

(b) Subdivision (d) of Section 56133 shall apply to any request for new or extended services pursuant to this section.

(c) For purposes of this section, "planned use" means any project that is included in an approved specific plan as of July 1, 2015.

(d) The Napa and San Bernardino commissions shall submit a report before January 1, 2020, to the Legislature on their participation in the pilot program, including how many requests for extension of services were received pursuant to this section and the action by the commission to approve, disapprove, or approve with conditions. The report required to be submitted pursuant to this subdivision shall be submitted in compliance with Section 9795 of the Government Code.

(e) The pilot program established pursuant to this section shall be consistent with Chapter 8.5 (commencing with Section 1501) of the Public Utilities Code.

(f) This section shall remain in effect only until January 1, 2021, and as of that date is repealed.

SEC. 3. The Legislature finds and declares that a special law is necessary and that a general law cannot be made applicable within the meaning of Section 16 of Article IV of the California Constitution because of the unique circumstances in Napa and San Bernardino.

SEC. 4. Section 1.5 of this bill incorporates amendments to Section 56133 of the Government Code proposed by both this bill and Senate Bill 239. It shall only become operative if (1) both bills are enacted and become effective on or before January 1, 2016, (2) each bill amends Section 56133 of the Government Code, and (3) this bill is enacted after Senate Bill 239, in which case Section 1 of this bill shall not become operative.

Draft Resolution No. 3217

Attachment 3

RESOLUTION NO. 3217

**A RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY, STATE OF CALIFORNIA,
REVISING AND AMENDING ITS POLICY AND PROCEDURE MANUAL**

On Wednesday, March 16, 2016, on motion of Commissioner _____, duly seconded by Commissioner _____, and carried, the Local Agency Formation Commission adopts the following resolution:

SECTION 1. The Local Agency Formation Commission for San Bernardino County, State of California (hereafter shown as "LAFCO"), hereby finds and determines that it wishes to revise and amend its Policy and Procedure Manual within the Application Processing section specific to Out of Agency Contracts (Chapter 2).

SECTION 2. The Local Agency Formation Commission for San Bernardino County therefore determines, resolves and orders that:

1. The Policy and Procedure Manual is hereby revised;
2. The revised and amended Out of Agency Service Contracts (Section IV: Application Processing, Chapter 2 – Out of Agency Service Contracts, of the Commission's Policy and Procedure Manual) is attached to this resolution as Exhibit "A" and incorporated herein by reference, is adopted and approved at the March 16, 2016 hearing.

SECTION 3. The Executive Officer of LAFCO is ordered to certify the passage of this resolution and to cause a copy of the amended Policy and Procedure Manual to be posted on the LAFCO Website, and a certified copy of this resolution to be forwarded to the County Executive Officer, each City, Town, and Independent Special District in the County and to affected County Departments.

THIS ACTION APPROVED AND ADOPTED BY THE LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY BY THE FOLLOWING VOTE:

AYES: COMMISSIONERS:

NOES: COMMISSIONERS:

ABSENT: COMMISSIONERS:

STATE OF CALIFORNIA)
)ss.
COUNTY OF SAN BERNARDINO)

I, KATHLEEN ROLLINGS-McDONALD, Executive Officer of the Local Agency

RESOLUTION NO. 3217

Formation Commission for San Bernardino County, California, do hereby certify this record to be a full, true, and correct copy of the action taken by said Commission, by vote of the members present, as the same appears in the Official Minutes of said Commission at its meeting of March 16, 2016.

DATED:

KATHLEEN ROLLINGS-McDONALD
Executive Officer

DRAFT